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Study of Financial Results
And Reporting Trends

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U.S. Gaming INDUSTRY

Laventhol & Horwath
Certified Public Accountants

1986 EDITION

U.S. GAMING INDUSTRY

Sixth Annual Study of Financial Results and Reporting Trends U.S. Gaming Industry

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INTRODUCTION

While the gaming industry in the United States experienced another year of mixed results in 1985, on a worldwide scale there is widespread evidence that casino gaming is expanding and becoming an integral part of vacation amenities. Caribbean resort casinos generally reported a good winter season that extended well into the spring of 1986; and most Australians were talking about the glamorous new casinos at Surfer's Paradise, Perth and Adelaide, Australia.

Within the continental U.S., state lotteries captured not only a growing share of the headlines but also a rising portion of the average American's disposable leisure time dollars. The new California lottery proved to be the most successful lottery yet established.

Meanwhile, the domestic casino industry continued the seesaw performance which has dizzied veteran observers in recent years, with several casinos filing for Chapter XI bankruptcy and others still facing serious problems. Conversely, net income for several companies reached new peaks.

In 1985, to an even greater degree than ever, casinos in Atlantic City and Nevada operated under totally different management styles. In fact, only one generalized characterization might be applied to both segments: The industry has entered a period of mergers and consolidation, with the large, successful corporations emerging as tomorrow's winners. Laventhol & Horwath noted signs pointing to this trend three years ago; it is now coming to fruition.

On the East Coast, Atlantic City casinos experienced the approximate 10 percent growth in win that L&H forecast at the year's outset. But aggregate operating profit (income before income taxes) of the 11 casinos dropped below even last year's poor showing. The continued rapid increase in casino square footage played an important part in this result. At the end of 1985, casino space on the New Jersey shore approximated 581,000 square feet, an increase of 14 percent over the 1984 year-end total of 511,000.

Laventhol & Horwath forecasts that the Atlantic City win will again climb approximately 10 percent in 1986, even though the first few months have gotten off to a slow start. This has now become an annual pattern for the New Jersey shore casinos. Net income for 1986 should improve. (For a detailed report on Atlantic City trends, see page 28.)

Nevada's casinos, on balance, ended the year with a modest upswing. Although the state's northern resorts did not do as well as hoped for, Las Vegas made up the difference, showing a continuing recovery from the 1984 strike. The Las Vegas month-to-month gains in tourist arrivals during 1986 were particularly impressive, although the increase slowed down in the fourth quarter. (For a detailed Nevada summary, see page 22.)

Outlook for 1986

Casinos

The U.S. casino industry crawled into 1986 with prospects for growing revenues and somewhat improved operating profits. The decline in the number of American tourists traveling overseas should increase the number of visitors to both Atlantic City and Nevada resorts—if operators are able to fine-tune their marketing strategies to capture the public's imagination.

For the long term, a new factor has to be considered. There are several proposals for the expansion of casinos to new jurisdictions.

In Louisiana, the governor has voiced strong approval for legalizing gaming. New Orleans, which recently has been experiencing a general decline in tourism, has a substantial infrastructure in place that would support gaming operations. According to L&H statistics, New Orleans hotels had an average occupancy of 55 percent in 1985, considerably below the national average of 68.4 percent. Of all the gaming proposals to be settled in 1986, Louisiana's is the most likely to become a reality.

In West Virginia, the governor has proposed a similar move. However, a constitutional issue has arisen questioning whether passage by the legislature is sufficient, or whether a referendum is required. No progress will be made until the issue is settled. Whatever the outcome, the chances of casinos operating in West Virginia look slim.

In Florida, the electorate will vote, in November, on a statewide referendum to permit casinos. Similar to an attitude engulfing a referendum in 1978, there is strong opposition, led by the governor, that will probably lead to the defeat of of the 1986 referendum. However, current public opinion polls show that the state's voters are 46 percent in favor, with 40 percent disapproving; 11 percent uncertain; and 3 percent "don't know." These polls reveal a marked shift from the 1978 effort, when the referendum went down to a 3 to 1 defeat.

The passage of any one of these state proposals would affect the balance of the current Nevada-Atlantic City casino axis.

Lotteries

As a major force in the gaming industry, lotteries continue to expand. Mega-buck payouts in New York and Illinois captured the imagination of the population in these states as well as the entire country. Prior to the mega-buck drawings, lotteries in these states generally attracted players resident in New York and Illinois and from neighboring jurisdictions.

California, the most populous state, entered the lottery industry with the most successful start-up of any state lottery. With the start of the on-line games, slated for later this year, the 1986 California state lottery revenue will far surpass that of other states.

Lottery results in 1985 also showed a decline in revenue in several states as well as an increase in operating costs in relation to total revenue. This trend must be moni-

tored in the near term, especially with the increase in the number of jurisdictions having lotteries.

For 1986, U.S. lottery revenue should approximate $14 billion while net proceeds to governments will exceed $5 billion.

Sources of Data

The statistical information for the casino industry section of this study has been assembled from information in the individual companies' annual reports to shareholders, 10-Ks submitted to the Securities and Exchange Commission (SEC), reports filed with the New Jersey Control Commission and information contained in the *Nevada Gaming Abstract*.

Because there are wide differences in the ways companies record costs in operating statements, and because some of the companies derive all their revenues from gaming operations, while others derive only a portion of revenue from this source, direct comparisons of corporate operating results may not be meaningful.

Additionally, many of the companies have different fiscal year-ends. Thus, the information is not always for the same period. Therefore, the operating results and percentages in this study should not be considered standards for the industry, nor are they necessarily desirable goals.

Information for state lotteries was obtained from the public annual reports issued by the state agencies and from additional financial information furnished by those agencies. Again, direct comparison between individual lotteries may not be meaningful because of differences in state population, mix of types of lotteries, differences in fiscal year-ends and other factors.

Comments or suggestions from readers on the information detailed in this report would be appreciated.

Saul F. Leonard, CPA
National Partner
Leisure Time and Gaming Industries

CORPORATIONS INCLUDED IN THIS STUDY

Table A **Gaming Corporations**	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
Bally's Park Place, Inc.	12/31/85			
Bally's Park Place Casino Hotel, Atlantic City		60,000	510	510
Caesars World, Inc.	7/31/85			
Caesars Atlantic City, Atlantic City (86.6% interest)		60,000	645	
Caesars Palace, Las Vegas		75,000	1,642	
Caesars Tahoe, Lake Tahoe		40,000	446	2,733
Circus Circus Enterprises, Inc.	1/31/86			
Circus Circus, Las Vegas		83,000	1,605	
Circus Circus, Reno		60,500	1,625	
Edgewater Hotel and Casino, Laughlin, Nevada		39,500	609	
Silver City Casino, Las Vegas		18,000		
Slots-A-Fun Casino, Las Vegas		16,500		3,839
Dunes Hotels and Casinos, Inc.	12/31/85			
Dunes Hotel and Country Club, Las Vegas		60,000	1,200	1,200
Elsinore Corporation	12/31/85			
Atlantis Casino Hotel, Atlantic City (91.5% interest)		50,500	500	
Four Queens Hotel and Casino, Las Vegas		29,000	700	
Hyatt Lake Tahoe Hotel and Casino, Lake Tahoe		12,500	459	1,659
Golden Nugget, Inc.	12/31/85			
Golden Nugget, Atlantic City		42,500	508	
Golden Nugget, Las Vegas		27,000	527	1,035
Hilton Hotels Corporation	12/31/85			
Flamingo Hilton, Las Vegas		34,000	2,256	
Las Vegas Hilton, Las Vegas		34,000	3,174	
Reno Hilton, Reno		58,000	595	6,025
Gold Coast Conrad International Hotel and Jupiters Casino Queensland, Australia (10% interest, management contract)[1]		60,000	622	622
Holiday Corporation	1/3/86			
Harrah's, Lake Tahoe			540	
Harrah's, Reno		134,000[2]	565	
Harrah's Marina Hotel/Casino, Atlantic City		54,000	750	
Holiday Casino, Las Vegas		48,000	1,008	2,863
Trump Casino Hotel, Atlantic City (50% interest)		60,000	612	612

[1]Partially opened in November 1985 with completion occurring in February 1986.
[2]Total for Harrah's, Lake Tahoe and Reno.

	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
MGM Grand Hotels, Inc.	8/31/85			
MGM Grand Hotel, Las Vegas		62,500	2,800	
MGM Grand Hotel, Reno		100,000	2,000	4,800
Pratt Hotel Corporation[3]	12/31/85			
Sands Hotel and Casino, Atlantic City		49,000	500	500
Ramada Inns, Inc.	1/2/86			
Tropicana Hotel and Casino, Atlantic City		51,000	521	
Tropicana Resort and Casino, Las Vegas		45,000	1,911	2,432
Resorts International, Inc.	12/31/85			
Paradise Island Resort & Casino, Nassau, Bahamas		20,000	1,271	
Resorts International Casino Hotel, Atlantic City		60,000	700	1,971
Sahara Resorts, Inc.	9/30/85			
Hacienda Resort Hotel and Casino, Las Vegas		19,000	832	
Sahara Hotel and Casino, Las Vegas		24,000	930	1,762
Scott Corporation	12/31/85			
Union Plaza Hotel and Casino, Las Vegas		80,000	1,021	1,021
Showboat, Inc.	6/30/85			
Showboat, Las Vegas		40,000	495	495
Del E. Webb Corporation[4]	12/31/85			
Claridge Casino and Hotel, Atlantic City		34,000	504	
High Sierra Casino and Hotel, Lake Tahoe		39,000	537	
Mint Casino and Hotel, Las Vegas		27,000	288	
Nevada Club, Laughlin		22,000	83	1,412

[3]Owns 50% interest in Australian corporations which operate and manage two casinos in Australia.
[4]All Del E. Webb Corporation Casino/Hotel operations are pursuant to management contracts; therefore, the information necessary for inclusion in the detailed analyses tables is not available.

COMMENTS FROM DIVERSIFIED CORPORATIONS WITH GAMING INTERESTS

Hilton Hotels Corporation

"The year 1985 presented unanticipated challenges for Hilton Hotels Corporation, many stemming from outside events over which we had no control. However, we were able to surmount these challenges successfully and we ended the year in the strongest financial position in our history. We are now firmly positioned for future growth."

". . . [The 1985 results] reflect many factors, including the loss of business due to a month-long New York City hotel strike and a strike against a major airline. Our results were also restrained by the reduction of rooms available because of the major refurbishing programs at several of our major properties, most notably the Capital Hilton in Washington, D.C., the Chicago Hilton & Towers and the Waldorf-Astoria . . . as well as difficult competitive conditions in certain of our market areas. . . ."

"Occupancy at our owned or managed hotels for the year was 64 percent, equal to last year. . . ."

"On the bright side, results from our Nevada gaming operations continued to improve. Our gaming operation's income contribution was up nine percent in 1985. Occupancy for our gaming properties was 86 percent in 1985 compared to 84 percent in 1984. The Las Vegas market in particular continues to grow, and our commanding presence there ensures that we participate strongly in this growth. . . ."

". . . We also broke ground in 1985 for a $62 million, 800-room addition to the Flamingo Hilton. When completed in mid-summer 1986, the 2,927-room Flamingo Hilton will be the second largest hotel facility in Las Vegas, surpassed only by our 3,174-room Las Vegas Hilton. We also began to build a $16 million, 35,000 square foot race & sports book addition to the Las Vegas Hilton."

"One of the more exciting events of 1985 was the partial opening in November of the 622-room Gold Coast Conrad International Hotel and Jupiters Casino in the resort area of Queensland, Australia. Hilton has a ten percent interest in and is managing this luxury resort hotel-casino. . . ."

". . . Early in [1985] the Company faced two potentially disruptive challenges. In late February we were denied a gaming license by the New Jersey Casino Control Commission. . . . The decision . . . left us quite frankly stunned. The denial . . . came despite our unqualified endorsement by the New Jersey Attorney General and the Division of Gaming Enforcement, despite . . . our 40 years of integrity as a publicly-owned corporation."

"Our rehearing request was promptly granted and is still pending. . . . However, . . . we decided it most prudent to solicit offers for the property . . . [which] was subsequently sold for $320 million in cash — our investment in the project."

"The other disruptive event arose in early April when the estate of . . . Conrad N. Hilton received an unsolicited offer . . . for the shares held by his estate. These shares total about 27 percent of the outstanding shares and, if acquired, the policies and goals of our Company may have been fundamentally changed. . . . This offer was reviewed and rejected by the executor of . . . the estate and by the board of directors of the Conrad N. Hilton Foundation. . . ."

Barron Hilton
Chairman and President

Holiday Corporation

"Under our new name, Holiday Corporation, 1985 was a year of great accomplishment for our company. It was a year of extraordinary unit growth, enhanced stockholder returns and renewed focus on our first priority — our customers. We moved closer to achieving our vision to be the best hotel and hotel/casino company in the world. . . ."

". . . We continue to concentrate on the hotel and hotel/casino businesses, developing profitable market segments within those businesses where we either enjoy leading positions or see our way clear to establishing a leading position. . . ."

". . . In total, our company, our franchisees and investors opened 141 new hotels under all our brands in 1985, and had an additional 144 hotels under construction at year-end. Never before in the history of our company or any other hotel company in the world has there been such extraordinary growth in new hotel units. . . ."

". . . [Also] to reinforce our commitment to continually improve product quality, we eliminated from our Holiday Inn system 59 hotels that did not meet our standards or our customers' expectations of quality . . ."

"Our development program may appear ambitious, especially in light of the current environment of overcapacity in the hotel industry . . . but there are areas of opportunity for well-positioned hotel products, even within this highly competitive environment. . . ."

". . . Our gaming operations are also growing. A major expansion of Harrah's Marina hotel/casino in Atlantic City was recently completed, making that facility one of the finest in the Atlantic City market. An expansion of our Holiday Casino in Las Vegas is underway. Last September we announced plans to build a new hotel/casino in Laughlin, Nevada, an emerging growth market. . . ."

". . . On March 11, 1986, we agreed to sell our 50-percent interest in Trump Casino Hotel in Atlantic City to Donald Trump. . . . This sale will free us to devote our efforts and resources to other operations and opportunities, including our recently expanded Harrah's Marina hotel/casino which is now the largest hotel/casino in Atlantic City."

"We believe our gaming business should increase profitability in 1986, particularly with the lack of new competitive supply coming on during the year in Atlantic City. We are extremely well positioned for steady and healthy growth in

all the gaming markets that we serve. . . ."

Michael D. Rose
Chairman and Chief Executive Officer

Richard J. Goeglein
President and Chief Operating Officer

Ramada Inns, Inc.

". . . Throughout the year, we faced our share of challenges as we pursued our goals of making Ramada a stronger business enterprise . . ."

". . . Ramada's gaming group continued to be a strong revenue and earnings generator for the company during 1985. . . ."

". . . At the Las Vegas Tropicana, our challenges were to complete a $70 million development project to transform the property into a showcase facility appealing to convention and resort customers while, at the same time, to maintain operations in the midst of extensive construction and refurbishing work. . . ."

". . . In recent years, the Tropicana suffered competitive disadvantage in the Las Vegas market by virtue of its standalone location at the end of the "Strip," its inadequate meeting and convention facilities and a rooms base that was not sufficient to allow effective utilization of existing casino floor space. . . ."

"With these objectives set, the Tropicana moved ahead with its massive expansion program, including . . . a new 806-room guest tower which increased the property's rooms . . . to over 1,900; [and] a 100,000 square-foot convention/exhibition complex. . . ."

". . . Perhaps the most unique aspect of the Tropicana development project was the creation of a five-acre, tropical theme water park. . . . Featuring the world's largest resort swimming pool, swim-up blackjack tables, tropical birds and fish, spas, lagoons, waterfalls and a water slide set amidst lush tropical landscaping . . . the water park gives the Tropicana the look and feel of a tropical island paradise. . . . Concurrent with the dramatic alterations of the Tropicana's physical plant, the main entrance to the property, the casino and all public areas were redesigned and refurbished to reflect the tropical theme. . . ."

". . . As would be expected with a project of this magnitude, the Tropicana development activities did hurt the property's operating performance in 1985. . . ."

". . . While some revenue and earnings improvement is expected for the Las Vegas Tropicana in 1986, the property's aggressive new marketing programs are intended to lay a solid foundation for significant growth and excellent performance in 1987 and beyond. . . ."

". . . Given the growing level of competition in Atlantic City, the management of our Tropicana established two key goals for 1985: maximizing the property's profitability through targeted marketing and through cost containment . . ."

"In its drive to maximize profits, the [Atlantic City] Tropicana placed a great deal of emphasis on high-margin market segments, particularly $1 slot and cash table games players . . ."

". . . Although rental expense related to the Tropicana sale/leaseback affected the property's 1985 performance, the transaction did provide an extremely positive benefit at the corporate level. By applying the proceeds from the sale/leaseback to debt reduction, Ramada realized a substantial decrease in corporate interest expense."

". . . Another noteworthy development project [in Atlantic City] is the new transportation center currently under construction on a site across . . . from the Tropicana. This 11-story structure will provide parking for over 1,000 cars and will also include a bus . . . terminal. When completed . . . [this] will give the Tropicana control of one of the largest inventories of parking spaces in the city. . . ."

Richard Snell
Chairman

Del E. Webb Corporation

"During the past five years, we have learned to appreciate the meaning of the famous saying often attributed to Mark Twain: 'The man who grabs the cat by the tail learns 44 percent more than the man who only watches'."

"And while we strategically planned the new direction of the company in the early 1980s, it was not until 1985 that we completed the repositioning and proved that we could become what we had decided to be — namely, a dynamic and very different company engaged in the management and development of real estate and leisure operations. . . ."

". . . And, while revenues are not nearly as important in a management/development company as earnings, we were pleased with both revenue and income performance as we carefully bridged the transition to management and development from ownership of bricks and mortar. . . ."

"We are a residential builder . . . a commercial properties [developer/operator] . . . a realty management, leasing and brokerage company . . . a construction company . . . own and manage outdoor recreation facilities. . . ."

"We now manage, versus own, casino/hotel operations in Atlantic City, N.J., and Nevada. . . ."

". . . As leaders of a vigorous corporation based in the dynamic West, we believe that change — as never before — dominates our corporate condition. The future belongs to those who can turn on a dime. . . ."

". . . The casino/hotels recorded a disappointing performance last year . . . Continuing competitive pressure was felt in Atlantic City. Market growth did not materialize to the extent expected at Lake Tahoe or in downtown Las Vegas. . . ."

"At The Claridge [Atlantic City] . . . the goal is to achieve maximum productivity from every square foot of space at the least cost. . . . [we are] continuing efforts to overcome the casino's small gaming space by closely monitoring win per gaming unit . . . [we have] received . . . approvals for a 10,000-square-foot casino expansion in 1986. . . . [At the] High Sierra [Lake Tahoe] the . . . retheming into a 'western-with-style' motif and mass marketing refocus has moved the casino forward . . . in a highly competitive market that showed virtually no market growth in 1985. . . . At The Mint [Las Vegas] . . . completion and refurbishment . . . give us a totally renewed casino/hotel and put us in a competitive position in the downtown market. . . . The Laughlin market grew substantially as did competing facilities. . . ."

Robert K. Swanson
Chairman and Chief Executive Officer

CONSOLIDATED CORPORATE OPERATING RESULTS

Table B
Consolidated Corporate Operating Results
($000 Omitted)

	Total Revenue*		Income From Operations**			
					Percent Total Revenue	
	1985	1984	**1985**	1984	**1985**	1984
Bally's Park Place, Inc.	**$ 260,317**	$ 271,338	**$ 43,995**	$ 47,146	**16.9**	17.4
Caesars World, Inc.	**660,798**	620,590	**69,641**	47,152	**10.5**	7.6
Circus Circus Enterprises, Inc.	**306,993**	274,050	**59,640**	52,445	**19.4**	19.1
Dunes Hotels and Casinos, Inc.	**94,586**	99,817	**(14,895)**	(12,892)	***	***
Elsinore Corporation[1]	**87,786**	77,533	**4,393**	405	**5.0**	0.5
Golden Nugget, Inc.	**385,023**	384,875	**29,640**	10,270	**7.7**	2.7
Hilton Hotels Corporation	**684,417[2]**	647,297[2]	**112,231[3]**	124,346[3]	**16.4**	19.2
Holiday Corporation	**1,804,472[2]**	1,759,818[2]	**224,263**	229,781	**12.4**	13.1
MGM Grand Hotels, Inc.	**352,924**	332,930	**28,005**	23,831	**7.9**	7.2
Pratt Hotel Corporation	**213,016**	192,835	**4,947**	(11,713)	**2.3**	***
Ramada Inns, Inc.	**583,240[2]**	600,153[2]	**23,723[3]**	14,907[3]	**4.1**	2.5
Resorts International, Inc.	**463,877**	483,901	**(8,807)**	5,295	***	1.1
Sahara Resorts, Inc.	**95,975**	94,213	**(1,349)**	(3,953)	***	***
Scott Corporation	**59,424**	60,064	**(1,973)**	(889)	***	***
Showboat, Inc.	**47,296**	45,991	**9,006**	8,881	**19.0**	19.3

N/A - Not available.
*Represents revenue after deductions for promotional allowances.
**Represents income before income taxes, minority interest, discontinued operations and extraordinary items.
***Not applicable; loss for the year.
[1]Excludes operations of Atlantis Hotel/Casino (other than net income). Atlantis operations are shown as discontinued operations.
[2]Excludes revenue of joint ventures and/or entities recorded on equity basis and/or entities operated under management contract.
[3]Before equity in earnings of joint ventures or other nonconsolidated operating entities.

Table B presents details about operating results of major operators in the U.S. casino gaming industry. A caveat, however: many factors, some nonrecurring, enter into a company's operating results. Therefore, a comparison of year-to-year operating results, and the percentage relationships between companies or years, is not always meaningful without obtaining more detailed financial information.

For the companies included in this study, total revenue for fiscal 1985 increased 2.6 percent compared with 1984. Casino/hotel revenue increased approximately 3.6 percent and working capital provided from operations increased 7 percent. Net income increased 10.7 percent. Net income in 1985 was 6 percent of revenue compared with 5.6 percent for this same group in 1984.

Casino/hotel revenue was approximately 64 percent of total revenue for 1985 compared with 63 percent in 1984. Income from operations increased to 9.5 percent of total revenue in 1985 compared with 9 percent in 1984.

Net Income				Working Capital Provided From Operations		Casino/Hotel Revenue*			
		Percent Total Revenue						Percent Total Revenue	
1985	1984	**1985**	1984	**1985**	1984	**1985**	1984	**1985**	1984
$ 23,495	$ 23,246	**9.0**	8.6	**$ 46,186**	$ 48,862	**$260,317**	$271,338	**100.0**	100.0
31,812	18,840	**4.8**	3.0	**72,626**	46,752	**619,808**	586,824	**93.8**	94.6
37,375	31,016	**12.2**	11.3	**66,107**	54,267	**306,993**	274,050	**100.0**	100.0
(15,666)	(2,626)	***	***	**(10,498)**	(8,902)	**93,152**	97,763	**98.5**	97.9
(24,152)	5,550	***	7.2	**8,768**	18,544	**84,730**	74,408	**96.5**	96.0
20,842	5,289	**5.4**	1.4	**84,970**	81,095	**N/A**	N/A	**N/A**	N/A
100,163	113,983	**14.6**	17.6	**150,825**	148,921	**366,652**	340,954	**53.6**	52.7
150,023	130,975	**8.3**	7.4	**344,833**	266,735	**664,328**[2]	644,098[2]	**36.8**	36.6
15,623	12,783	**4.4**	3.8	**42,605**	46,460	**352,924**	332,930	**100.0**	100.0
2,640	(12,301)	**1.2**	***	**8,083**	8,612	**194,280**	174,966	**91.2**	90.7
17,207	8,821	**3.0**	1.5	**49,858**	45,637	**341,814**	332,861	**58.6**	55.5
6,093	(4,705)	**1.3**	***	**18,095**	65,872	**416,403**	441,013	**89.8**	91.1
(604)	(1,998)	***	***	**6,559**	4,208	**87,446**	82,052	**91.1**	87.1
(1,017)	(489)	***	***	**3,325**	6,845	**59,424**	60,064	**100.0**	100.0
4,941	4,910	**10.4**	10.7	**8,389**	7,810	**47,296**	45,991	**100.0**	100.0

GROSS OPERATING PROFIT OF GAMING OPERATIONS

Table C
Gross Operating Profit of Gaming Operations
($000 Omitted)

	(a) Casino Revenue		(b) (a) As a Percentage of (c)		(c) Hotel and Other Revenue*	
	1985	1984	**1985**	1984	**1985**	1984
Bally's Park Place, Inc.	**$224,521**	$237,700	**86.2**	87.6	**$ 35,796**	$ 33,638
Caesars World, Inc.	**498,857**	472,093	**80.5**	80.4	**120,951**	114,731
Circus Circus Enterprises, Inc.	**195,383**	176,717	**63.6**	64.5	**111,610**	97,333
Dunes Hotels and Casinos, Inc.	**63,140**	68,827	**67.8**	70.4	**30,012**	28,936
Elsinore Corporation[1]	**57,590**	49,040	**68.0**	65.9	**27,140**	25,368
Golden Nugget, Inc.	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Hilton Hotels Corporation	**204,649**	190,859	**55.8**	56.0	**162,003**	150,095
Holiday Corporation[2]	**517,966**	498,203	**78.0**	77.3	**146,362**	145,895
MGM Grand Hotels, Inc.	**161,342**	162,533	**45.7**	48.8	**191,582**	170,397
Pratt Hotel Corporation	**178,475**	158,602	**91.9**	90.7	**15,805**	16,364
Ramada Inns, Inc.	**N/A**	281,300	**N/A**	84.5	**N/A**	51,561
Resorts International, Inc.	**301,261**	303,193	**72.3**	68.7	**115,142**	137,820
Sahara Resorts, Inc.	**51,008**	46,528	**58.3**	56.7	**36,438**	35,524
Scott Corporation	**41,222**	42,069	**69.4**	70.0	**18,202**	17,995
Showboat, Inc.	**32,345**	31,533	**68.4**	68.6	**14,951**	14,458

N/A — Not available
*Hotel and other revenue is shown after deducting promotional allowances.
**Not applicable; loss for the year.
[1]Excludes operations of Atlantis hotel/casino.
[2]Excludes Atlantic City joint venture.

In Table C the revenue and gross operating profits of gaming operations are shown separately so that these benchmarks may be more closely analyzed. In this context, gross operating profit is operating profit, after all operating costs, but before interest costs and unallocated corporate expenses.

Information for this table has, for the most part, been obtained from "business segment" sections of annual reports of diversified corporations — or by adding interest costs to the indicated operating profit of corporations that are solely in the casino/hotel business.

For the group of companies included in this year's survey that provided the detailed analysis of revenue, both casino revenue and hotel and other revenue rose approximately 4 percent compared with 1984. Casino revenue represented approximately 71 percent of total casino/hotel revenue for both years. Gross operating profit for 1985 decreased to 16.1 percent of total casino/hotel revenue from 16.5 percent in 1984.

(d) **(c) As a Percentage of (e)**		(e) **Total Casino/Hotel Revenue***		(f) **Gross Operating Profit**		(g) **(f) As a Percentage of (e)**	
1985	1984	**1985**	1984	**1985**	1984	**1985**	1984
13.8	12.4	**$260,317**	$271,338	**$ 57,293**	$ 60,366	**22.0**	22.3
19.5	19.6	**19,808**	586,824	**81,699**	64,506	**13.2**	11.0
36.4	35.5	**306,993**	274,050	**89,180**	82,842	**29.0**	30.2
32.2	29.6	**93,152**	97,763	**(824)**	1,868	**	1.9
32.0	34.1	**84,730**	74,408	**13,246**	8,840	**15.6**	11.9
N/A	N/A	**N/A**	N/A	**51,020**	68,847	**N/A**	N/A
44.2	44.0	**366,652**	340,954	**76,358**	69,745	**20.8**	20.5
22.0	22.7	**664,328**	644,098	**119,915**	123,298	**18.1**	19.1
54.3	51.2	**352,924**	332,930	**61,840**	58,885	**17.5**	17.7
8.1	9.3	**194,280**	174,966	**27,560**	6,859	**14.2**	3.9
N/A	15.5	**341,814**	332,861	**28,947**	43,260	**8.5**	13.0
27.7	31.3	**416,403**	441,013	**47,683**	75,099	**11.5**	17.0
41.7	43.3	**87,446**	82,052	**8,873**	7,115	**10.2**	8.7
30.6	30.0	**59,424**	60,064	**5,081**	6,871	**8.6**	11.4
31.6	31.4	**47,296**	45,991	**9,006**	8,881	**19.0**	19.3

COMMENTS FROM CORPORATIONS PRIMARILY IN THE GAMING INDUSTRY

The following are samples of comments taken from annual reports to shareholders of companies primarily engaged in the gaming business. For purposes of this study, these are defined as companies that derive 85 percent or more of their revenues from gaming sources. Several of these companies this year used their SEC filing on Form 10-K as their annual report to shareholders; in these instances, the comments were excerpted from this report.

Bally's Park Place, Inc.

". . . The original foundation of Bally's Park Place Casino Hotel was built to support a multi-story tower. In 1985, the Company began construction of such a tower, which will have approximately 30 stories and contain approximately 800 rooms and will be completed, subject to the risks and delays associated with construction, in early 1988. The Company's long-range plans also contemplate an increase in the size of the casino as well as construction of additional restaurants, parking and other public facilities . . ."

". . . Bally has entered into an agreement with MGM Grand Hotels, Inc., to acquire its two casino hotels in Las Vegas and Reno . . ."

". . . In addition to [its] Boardwalk properties . . . the Company has acquired or is leasing an aggregate of approximately 1,003,000 square feet of land on 32 parcels in Atlantic City . . . and may be used for future expansion. . ."

Caesars World, Inc.

". . . For the first time in the Company's history, all three Caesars hotel/casinos as well as our other operating entities made positive contributions to earnings for the full year."

"Performance records were established in key areas at all our facilities."

"Most important, major expansion and refurbishing programs were completed, as Caesars continued to enhance destination resorts which are preeminent in the marketplaces we serve. . ."

". . . In short, we are in the best financial position in the Company's history and are well positioned to take advantage of business opportunities as they arise."

"Our marketing programs remain focused on attracting a broader range of customers while retaining Caesars World's traditional leading position in the high-limit table-game marketplace. . . . Caesars Palace and Caesars Tahoe achieved all-time records in casino wins . . . Caesars Tahoe's gains were especially gratifying in that the mountain resort made a profitable full-year contribution for the first time in its history."

"Both of these Nevada properties are benefiting from significant expansion programs to help attract a broader segment of the marketplace. Caesars Palace . . . increased its casino area to 75,000 square feet with the opening of the Olympiad Race and Sports Book. This expanded facility . . . features electronic display boards and audio/visual equipment which bring . . . live horse racing and other major sporting competitions. . . [In 1986] Caesars Tahoe will also have a Race and Sports Book. . . ."

". . . The New Jersey marketplace proved difficult for the entire gaming industry during the past fiscal year. . . . Nevertheless, we are encouraged by the fact that several notable achievements at Caesars Atlantic City have helped improve our outlook for the future."

"Caesars Atlantic City's two-year, $85 million expansion and refurbishing program . . . included . . . 140 additional luxury suites, an 1,100-seat showroom . . . more than 11,000 square feet of additional casino space. . . . In July [1985] Caesars Atlantic City established an all-time monthly record for any casino in total casino win. . ."

"Whether it be a world-class sporting or other event, we will continue to place Caesars in the public eye in a manner which makes our name synonymous with the image of quality and excitement. . ."

Henry Gluck
Chairman of the Board and Chief Executive Officer

J. Terrence Lanni
President and Chief Operating Officer

Circus Circus Enterprises, Inc.

". . . When Circus became publicly held in October 1983, we operated fewer than 2,500 rooms and approximately 165,000 square feet of casino space. By the summer of 1987, this Company expects to operate nearly 6,000 rooms and on the order of 310,000 square feet of casino space . . ."

". . . From the summer of 1985 to the summer of 1987, Circus will, in total, have added 2,888 rooms and over 100,000 square feet of casino space in its three Nevada markets . . ."

" . . We fully opened the 900-room Skyway Tower at Circus Circus - Reno in July 1985. Then we proceeded at a clip ahead of schedule all year on the 1,188-room Circus Skyrise at Circus Circus - Las Vegas, culminating in its early opening on February 28, 1986. This tremendous increase in the number of rooms at our two major theme properties, where 70% of the Company's operating profits were earned last year, should substantially expand their market shares of casino revenues and impel much of Circus' earnings growth in fiscal 1987 and through the next several years."

". . . Also, we brought still another new project into the pipeline last year — the Colorado Belle . . . our second property in Laughlin . . ."

". . . In the year ahead, we envision a growth rate in Nevada's statewide casino revenues in a range of 7 to 9%. By individual market, we expect Las Vegas to match that, Reno to lag it by a couple of points, and Laughlin to more than double it . . ."

". . . As for profits, we find that it may take a year or two to bring large expansion projects up to desired profitability, though

we normally achieve solid increases in profits early on . . ."

". . . Recently, proposed new jurisdictions for casino gaming have again become topical [in New Orleans, Florida and West Virginia]. Our position . . . is to prepare ourselves so that we can make appropriate decisions about whether to enter such markets, if and when a jurisdiction legalizes gaming. As for Atlantic City, we remain watchful . . . since that market is still comprised of mainly daytrip rather than destination visitors. Our philosophy of merchandising and our high level of profitability rely on loyal customers who spend several days with us. . ."

William G. Bennett
Chairman and Chief Executive Officer

William N. Pennington
President

Dunes Hotels and Casinos, Inc.

". . . MRI [a wholly-owned subsidiary of M&R Corporation, owners and operators of the Dunes] filed a petition for relief under Chapter 11 . . . on November 6, 1985. The petition for reorganization . . . does not include the Dunes or its other subsidiaries, although Dunes is considering the advisability of seeking relief for itself and its other subsidiaries under the Bankruptcy Code . . ."

". . . Pursuant to state and local ordinances, MRI must improve, install, and add life-saving devices to its facilities (retrofit). MRI estimates that the time to complete retrofit is approximately seven months at an approximate cost of $2,300,000. MRI currently is subject to a deadline of May 12, 1986 . . . to complete retrofit, and it will seek extension of such deadline . . ."

Elsinore Corporation

". . . As a result of a significant decline in revenues and increasing losses, in October 1985, management instituted an aggressive program to reduce costs and stabilize operations [at the Atlantis Casino Hotel in Atlantic City]. Thereafter, management, together with its advisors and consultants, developed a new business plan for the Atlantis designed to permit continued operations primarily with available cash. As contemplated in the business plan, a new promotional program was initiated in March 1986 aimed at attracting middle- and lower-stake players and enhance revenues . . ."

". . . Primarily as a result [of working capital deficiences] Elsinore Shore Associates [which operates the Atlantis] on November 14, 1985, filed a voluntary petition for reorganization under the Bankruptcy Code. . ."

". . . The Company, subject to available resources intends to operate the Atlantis until disposition is effected. . . ."

". . . Primarily, as a result of operating losses and working capital deficiences, Elsinore Finance Corporation did not meet its interest payment . . . of $6,975,000 due on November 1, 1985. . ."

Golden Nugget, Inc.

". . . Our Atlantic City casino-hotel continued to face the unfavorable competitive trend that began in the market during 1984 when the growth rate in casino capacity surpassed the growth rate in market volume. With the opening of the eleventh casino-hotel in June 1985, the weighted average number of gaming units for the year increased by more than 14% while the total casino revenues (win) increased by only 10%. The dilution imposed by this combination of events had an inevitable effect on the operating results of our Atlantic City facility. Long-overdue actions in process or recently taken by state or local government, however, have somewhat brightened the prospects for future growth in market volume . . . If proposed legislation is enacted, 24-hour gaming could go into effect on a trial basis later [in 1986]. Improvements to the transportation infrastructure between Philadelphia and Atlantic City include the expansion of the expressway . . . and plans for a rail link between the two cities . . . Additionally . . . scheduled air service by a major carrier could begin by the end of the summer . . ."

". . . Our Las Vegas casino-hotel continues to command a prominent position in the marketplace. In mid-1985, we responded to a growing demand for hotel accomodations by initiating plans for a major expansion project . . . Groundbreaking for a 947-room tower . . . began in August 1985, and we expect the project to be completed in November [1986]. The recent reductions in fuel and air transportation costs have stimulated a Las Vegas resurgence, and our vastly expanded facilities . . . will position us to capitalize on what we believe is a long-term growth cycle for this market."

". . . In 1985 we issued $299 million principal amount of notes . . . backed by a mortgage on our Atlantic City casino-hotel, and . . . repurchased an aggregate of approximately 6,150,000 shares of our common stock, which represents almost 21% of our total shares presently outstanding . . ."

"We are cautiously evaluating expansion alternatives in existing markets and monitoring activities in other jurisdictions that are considering the legalization of casino gaming . . ."

Stephen A. Wynn
Chairman of the Board and President

MGM Grand Hotels, Inc.

". . . On November 15, 1985 MGM Grand entered into an Agreement and Plan of Merger . . . with Bally Manufacturing Corporation, and Bally Manufacturing Corporation International, a wholly-owned subsidiary of Bally, whereby the parties agreed that Bally International would be merged into MGM Grand, and that the merged company would be a wholly-owned subsidiary of Bally. At the time of the merger, the holder of each share of MGM Grand common stock would be entitled to receive $18.00 in cash, with the exception that each share held by Kirk Kerkorian or by Tracinda Corporation, which is owned by Kerkorian, would have a right to receive $12.24 in cash for each MGM Grand common share held . . ."

"Immediately prior to the . . . merger, MGM Grand would transfer to a company . . . as designated by Kerkorian, certain . . . assets which . . . are to include all of MGM Grand's trademarks, trade names and logos that . . . were licensed to MGM Grand by MGM/UA Entertainment Co. . ."

". . . The fire at the Grand - Las Vegas [November 1980] resulted in substantial property damage and necessitated the refurbishing and partial rebuilding of the hotel casino at a cost . . . of approximately $138,000,000 . . ."

". . . MGM Grand owns approximately 64 acres of land in Hull, Massachussetts on which it originally planned to construct a hotel/casino complex in the event that legalization of casino gaming were approved by the Massachussetts Legislature and the Town of Hull. Such legislation has not been enacted and MGM Grand is now preparing to sell such property . . ."

Sahara Resorts

". . . Our two hotels, Sahara Hotel and Casino and Hacienda Resort Hotel and Casino, responded well to the changing Las Vegas business environment by showing an overall occupancy of 90% for fiscal 1985 versus 82% for the prior fiscal year."

"These occupancy figures and the results they brought are reflective of the success of our marketing strategy which has been to fill our hotel rooms by appealing primarily to the tourist market and selected casino VIPs rather than undertaking a broad based and expensive junket or 'Highroller' program. At the Sahara under this plan we were able to increase our casino table game revenue by 6% while decreasing the attendant expenses by 13%. Slot machine revenue increased 13% with only a modest increase in expenses for the period. Advance bookings continue strong into 1986. Barring any major economic upheavals, we anticipate continued high occupancy at both properties."

"The much-anticipated opening of Wet 'n Wild, a water oriented amusement park immediately adjacent to our Sahara property, became a reality in May. This added attraction unquestionably improved our slot win during the summer months and added the final link in the chain which physically connects the Sahara with the rest of the Las Vegas Strip hotels. We anticipate, as Wet 'n Wild matures and grows it will continue to be a strong magnet, bringing more and more people into the proximity of our property."

"The Las Vegas economy is growing. . . Over 3,000 additional hotel rooms are expected to open in 1986. . . We consider this expansion to be a strong indicator of future prosperity for the entire area. The Company continues to evaluate a number of alternatives to maximizing shareholder equity through advantageous deployment of its resources during these times."

"After one year, the Race and Sports Book at the Sahara is an unqualified success. Utilizing many unique marketing techniques, it has created an increasing number of loyal repeat customers. . ."

". . . Though much has been achieved this year, we are cognizant of the fact that we have not yet reached our primary goal of overall profitability. . . . Management's commitment to that primary goal remains steadfast."

Paul W. Lowden
Chairman of the Board, President and Chief Executive Officer

Scott Corporation

"Our company's Management and Staff were greatly disappointed with 1985 operating results . . ."

". . . The biggest disappointment was the failure of gaming revenues to reach budgeted forecasts . . . $801,000 of the decrease can be attributed to the Mizpah Hotel and Casino which was sold on September 30, 1984 . . ."

". . . Gaming revenues were negatively impacted . . . from several sources. One of the most serious of which was occasioned by the introduction of State Gaming Control Board Regulation 6A which requires detailed player identification data be reported on casino customers who become involved in cash transactions exceeding $10,000. In addition to impacting major pit games, this regulation had a material effect on Race and Sports Book revenues . . . Other, perhaps less measurable, adverse effects on gaming revenues came from the . . . state lottery in California, the closure of Carson Street, and increased competition not only from downtown casinos but also from Laughlin, Nevada and the 'Strip'."

"Action has been taken to reverse the negative impact of changes in traffic patterns and to increase the Company's share of existing consumer dollars . . ."

"On a further positive note, revenues for the first quarter of 1986 are running well ahead of those reported during any quarter of 1985. The general economic outlook for Southern Nevada is encouraging . . ."

Frank E. Scott
Chairman of the Board and Chief Executive Officer

Showboat, Inc.

". . . [Although] net income from operations increased . . . earnings per share were reduced . . . due to the addition of 900,000 shares sold during our public stock offering. The funds generated [by that] and the sale of $57.5 million in subordinated sinking fund bonds will enable the Company to meet its budget requirements for the Atlantic City Showboat . . ."

". . . An advance team of executives relocated . . . to Atlantic City. Together with that team, a select group of industry executives, handpicked in Atlantic City during the past two years, form the nucleus of Showboat management that is directing the pre-opening operations. . ."

". . . [In Atlantic City] no facility has yet been designed, opened or marketed to appeal to moderate gamblers, sports enthusiasts, families and area residents, like Showboat has done so successfully for 31 years in Las Vegas. . ."

Joseph H. Kelley
Chairman of the Board, President and Chief Executive Officer

CASINO REVENUE AND PROMOTIONAL ALLOWANCES

Promotional allowances—in the form of complimentary rooms, food and beverages ("comps")—are an integral part of the casino/hotel industry and are considered to be routine costs for improving business.

However, increasingly in recent years, such allowances have come under considerable examination within the industry and among financial analysts. The question is: To what extent do comps capture and hold business? What is their value in terms of their costs as a percentage of business revenues?

Precise analysis is difficult. One of the reasons is that the amounts shown in Table D represent the retail value of these complimentary goods and services, whereas the actual costs to the casino/hotel are considerably less. Considerable sums are also spent for promotional expenses, including free travel and cash giveaways. The promotional allowances represent just one segment of the total marketing costs.

While a discernable trend is difficult, it is interesting to note that in 1985 both promotional allowances and casino revenue increased approximately 4 percent. In the aggregate, promotional allowances averaged approximately 12 percent of casino revenue for both years.

Table D
Casino Revenue and Promotional Allowances
($000 Omitted)

	Casino Revenue		Promotional Allowances		As a Percentage of Casino Revenue	
	1985	1984	**1985**	1984	**1985**	1984
Bally's Park Place, Inc.	**$224,521**	$237,700	**$15,958**	$21,447	**7.1**	9.0
Caesars World, Inc.	**498,857**	472,093	**75,924**	70,008	**15.2**	14.8
Circus Circus Enterprises, Inc.	**195,383**	176,717	**11,373**	10,710	**5.8**	6.1
Dunes Hotels and Casinos, Inc.	**63,140**	68,827	**10,482**	12,235	**16.6**	17.8
Elsinore Corporation[1]	**57,590**	49,040	**7,497**	5,826	**13.0**	11.9
Golden Nugget, Inc.	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Hilton Hotels Corporation	**204,649**	190,859	**26,637**	24,258	**13.0**	12.7
Holiday Corporation[2]	**517,966**	498,203	**66,758**	63,807	**12.9**	12.8
MGM Grand Hotels, Inc.	**161,342**	162,533	**25,108**	22,415	**15.6**	13.8
Pratt Hotel Corporation	**178,475**	158,602	**17,392**	19,846	**9.7**	12.5
Ramada Inns, Inc.	**N/A**	281,300	**39,020**	44,323	**N/A**	15.8
Resorts International, Inc.	**301,261**	303,193	**41,010**	35,399	**13.6**	11.7
Sahara Resorts, Inc.	**51,008**	46,528	**6,347**	5,560	**12.4**	12.0
Scott Corporation	**41,222**	42,069	**7,035**	6,675	**17.1**	15.9
Showboat, Inc.	**32,345**	31,533	**1,962**	1,741	**6.1**	5.5

N/A — Not available.
[1]Excludes operations of Atlantis Hotel/Casino.
[2]Excludes Atlantic City joint venture.

GAMING OPERATING PROFIT AS A PERCENTAGE OF GAMING ASSETS

Table E reflects gaming gross operating profit as a return on gaming operations assets. In general, the amount of identifiable gaming operations assets was obtained from the "business segment" sections of annual reports of diversified corporations, or as total assets for corporations that are solely casino/hotel corporations. (For a definition of gaming gross operating profit, see page 11.)

In 1985, gross operating profit as a percentage of identifiable gaming operation assets decreased to 12.6 percent from 13.5 percent in 1984. As in prior years, the dynamic year-to-year changes of individual companies is highlighted in this table.

Table E
Gaming Operating Profit as a Percentage of Gaming Assets
($000 Omitted)

	Identifiable Gaming Operation Assets		Gaming Gross Operating Profit		As a Percentage of Assets	
	1985	1984	**1985**	1984	**1985**	1984
Bally's Park Place, Inc.	**$342,271**	$327,094	**$ 57,293**	$ 60,366	**16.7**	18.5
Caesars World, Inc.	**559,019**	540,337	**81,699**	64,506	**14.6**	11.9
Circus Circus Enterprises, Inc.	**490,144**	447,285	**89,180**	82,842	**18.2**	18.5
Dunes Hotels and Casinos, Inc.	**95,079**	104,508	**(824)**	1,868	*	1.8
Elsinore Corporation[1]	**191,117**	213,864	**13,246**	8,840	**6.9**	4.1
Golden Nugget, Inc.	**N/A**	N/A	**51,020**	68,847	**N/A**	N/A
Hilton Hotels Corporation	**N/A**	N/A	**76,358**	69,745	**N/A**	N/A
Holiday Corporation[2]	**859,046**	784,261	**119,915**	123,298	**14.0**	15.7
MGM Grand Hotels, Inc.	**552,917**	580,421	**61,840**	58,885	**11.2**	10.2
Pratt Hotel Corporation	**195,447**	161,201	**27,560**	6,859	**14.1**	4.3
Ramada Inns, Inc.	**316,076**	277,535[3]	**28,947**	43,260	**9.2**	15.6
Resorts International, Inc.	**474,588**	392,404	**47,683**	75,099	**10.1**	19.1
Sahara Resorts, Inc.	**99,470**	97,715	**8,873**	7,115	**8.9**	7.3
Scott Corporation	**83,784**	88,987	**5,081**	6,871	**6.1**	7.7
Showboat, Inc.	**112,815**	44,458	**9,006**	8,881	**8.0**	20.0

N/A — Not available.
*Not applicable; loss for the year.
[1]Excludes operations of Atlantis Hotel/Casino.
[2]Excludes Atlantic City joint venture.
[3]Excludes Las Vegas property in unconsolidated partnership.

CORPORATE INTEREST EXPENSE, DEPRECIATION AND AMORTIZATION

Corporate interest expense seesawed wildly in 1985. Several corporations took advantage of the reduction in interest rates to obtain debt financing for proposed projects or to refinance existing properties. This resulted in total interest expense increasing in 1985 to 123.8 percent of last year's figure.

It should be noted that interest expenses as set forth are interest costs net of such costs capitalized. Therefore, this tabulation may not give a complete perspective of a corporation's full interest load.

Depreciation and amortization continued to climb in 1985, totaling 109.2 percent of 1984. This was more a reflection of continuing expansion of the companies' overall operations than any significant increase in gaming assets.

Table F
Corporate Interest Expense, Depreciation and Amortization
($000 Omitted)

	Interest Expense			Depreciation and Amortization		
	1985	1984	1985 % of 1984	**1985**	1984	1985 % of 1984
Bally's Park Place, Inc.	**$ 13,298**	$13,220	100.6	**$ 23,338**	$ 24,315	96.0
Caesars World, Inc.	**41,228**	38,928	105.9	**34,555**	28,599	120.8
Circus Circus Enterprises, Inc.	**29,540**	30,397	97.2	**17,334**	14,401	120.4
Dunes Hotels and Casinos, Inc.	**14,071**	14,760	95.3	**5,932**	5,786	102.5
Elsinore Corporation[1]	**8,853**	8,435	105.0	**4,537**	4,281	106.0
Golden Nugget, Inc.	**73,143**	51,083	143.2	**26,502**	21,420	123.7
Hilton Hotels Corporation[2]	**20,332**	15,341	132.5	**46,272**	42,020	110.1
Holiday Corporation	**148,192**[3]	86,550[3]	171.2	**123,779**[2]	110,816[2]	111.7
MGM Grand Hotels, Inc.	**32,710**	30,294	108.0	**22,057**	21,096	104.6
Pratt Hotel Corporation	**22,613**	18,572	121.8	**13,836**	12,185	113.5
Ramada Inns, Inc.[2]	**35,096**	45,776	76.7	**30,913**	32,687	94.6
Resorts International, Inc.	**80,139**	65,446	122.5	**24,264**	23,239	104.4
Sahara Resorts, Inc.	**13,329**	13,484	98.9	**4,425**	4,356	101.6
Scott Corporation	**7,054**	7,760	90.9	**5,220**	5,325	98.0
Showboat, Inc.	**5,125**	0	*	**2,733**	2,601	105.1

*Not applicable; no interest expense in 1984.
[1]Excludes operations of Atlantis Hotel/Casino.
[2]Excludes joint ventures or other unconsolidated operating entities.
[3]Includes proportionate share from unconsolidated affiliates.

TOTAL CORPORATE ASSETS, SHAREHOLDERS' EQUITY, RETURN ON SHAREHOLDERS' EQUITY AND DEBT-TO-EQUITY RATIO

Table G provides additional yardsticks by which financial analysts can judge corporate performance.

The ratio of debt to equity and the amount of equity as a percentage of total assets frequently indicate to what extent management is depending on borrowed funds. Financial analysts generally consider a company with a high debt-to-equity ratio to be more volatile. However, there are a number of exceptions.

The debt-to-equity ratio is calculated by dividing the long-term debt (including current maturities) at year-end by the ending shareholders' equity. For 1985, the aggregate ratio of shareholders' equity to total assets decreased to 30.2 percent from 39.5 percent. The principal reason for the decrease was Pratt Hotel Corporation's acquisition of Greate Bay Casino Corporation.

The 1985 return on shareholders' equity was computed by dividing the net income by the average shareholders' equity at the beginning and the end of the year. Return on shareholders' equity for 1985 increased to 12.9 percent compared with 11.5 percent in 1984 for a slightly different group of corporations.

Table G
Total Corporate Assets, Shareholders' Equity, Return on Shareholders' Equity and Debt-to-Equity Ratio
($000 omitted)

	(a)	(b)	(c)	(d)	(e)
	Total Assets 1985	**Shareholders' Equity 1985**	**(b) As a Percentage of (a)**	**1985 Return on Shareholders' Equity**	**Debt to Equity Ratio**
Bally's Park Place, Inc.	$ 342,271	$186,546	54.5	13.5	0.6
Caesars World, Inc.	619,477	226,475	36.6	15.2	1.1
Circus Circus Enterprises, Inc.	490,144	191,891	39.2	21.7	1.2
Dunes Hotels and Casinos, Inc.	101,944	(30,288)	N/A	*	N/A
Elsinore Corporation[1]	119,117	25,646	21.5	*	5.3
Golden Nugget, Inc.	921,231	204,066	22.2	9.7	2.9
Hilton Hotels Corporation[2]	1,225,605	651,446	53.2	16.1	0.4
Holiday Corporation[2]	2,447,570	662,485	27.1	17.8	1.9
MGM Grand Hotels, Inc.	552,917	117,553	21.3	13.3	1.9
Pratt Hotel Corporation	219,618	1,715	0.8	**	101.3
Ramada Inns, Inc.[2]	693,199	268,706	38.8	6.7	1.1
Resorts International, Inc.	958,635	133,355	13.9	4.5	4.2
Sahara Resorts, Inc.	119,902	11,483	9.6	*	8.2
Scott Corporation	83,784	21,902	26.1	*	2.5
Showboat, Inc.	112,815	51,664	45.8	10.9	0.9

N/A — Not applicable; shareholders' deficiency.
*Not applicable; loss for the year.
**Not applicable; shareholders' deficiency as of 12/31/84.
[1] Excludes operations of Atlantis Hotel/Casino
[2] Excluding share of debt of joint ventures or other unconsolidated operating entities.

THE CASINO GAMING INDUSTRY— AN OVERVIEW BY FINANCIAL ANALYSTS

"Tough road ahead for casino legalization in other jurisdictions"

In Atlantic City, capacity increases at Caesars, the Sands and Harrah's were the major factors behind their improving 1985 performances, with each enhancing or holding market share and increasing gaming revenues. Caesars benefited in both the live games and slot categories. At the Sands, expansion to include additional slots, active promotion of its suites and the new food court all contributed to its 12.2 percent revenue gain in 1985. Harrah's Marina added capacity in December 1985, including 244 new suites, 11,000 square feet of additional casino space encompassing 410 new slots.

With no new capacity coming on stream until Showboat's opening in early 1987 and marketing efforts underway by all operators to expand mid-week play via tour-trip promotions, coupled with increased air service, most operators should enjoy a reasonably healthy 1986. We are anticipating a year-over-year revenue advance of 11 to 12 percent in 1986. This may prove conservative in the light of improving economic conditions and lower gasoline prices.

On the whole Nevada's revenues continued to recover in 1985 with the Laughlin and Las Vegas area growing in line with our expectations. Laughlin continues to outpace the market dramatically as major room/casino capacity additions drive up demand to this Colorado River location. With lower air fares coupled with moderating gasoline prices, overall traffic flow to Las Vegas' Downtown and Strip locations should increase by a healthy rate this year. With an improving economic backdrop we are forecasting a 10 to 11 percent growth rate for the state in 1986.

While there has been much discussion in the press about prospects for casino legalization in Louisiana, Florida and West Virginia, the current realities suggest a tough, long road ahead.

Steven Eisenberg
Investment Research Analyst
Bear, Stearns & Co., Inc.

"Crosswinds ahead for the gaming industry"

The largest potential positive for the gaming industry as a whole is a possible legalization of casino gaming in a new jurisdiction. Of the three areas currently considering such a move, we give Louisiana the best odds, with a 30 percent probability. However, communities do not legalize casino gaming lightly. In many instances it might be easier to build a nuclear power plant or a toxic waste plant.

Opening a new market for casinos would be a substantial advantage for major expansion-oriented gaming companies. The public's propensity to gamble is closely correlated with its proximity. People living near casino areas are most apt to become players than those who live far away. This explains why Atlantic City could grow to rival Las Vegas in revenue without the Nevada hub experiencing a decline. To date, Atlantic City has taken very little business from Las Vegas; most of its market has been due to a growth in gaming by Northeast residents.

Atlantic City may benefit this year from a 24-hour casino play on a test basis. Currently, Atlantic City is the only community in the world with a 4 A.M. traffic jam. We give the legalization proposal a 50/50 chance. Any incremental increase in business as a result of this move would be highly profitable.

The Northeast market is by no means saturated. With better air service and more hotel rooms, we believe Atlantic City can grow to have two to three times Las Vegas' annual revenue. Even so, this implies a somewhat limited growth by the industry on a national basis.

A new jurisdiction, however, would change this picture dramatically. For example, if casinos are legalized in New Orleans or Miami — or any place not within a convenient bus ride from Atlantic City — that would develop and expand a whole new region's propensity to play the slots or table games.

Daniel R. Lee
Vice President
Drexel Burnham Lambert

"A Modestly Positive View"

Recent gaming win figures in Atlantic City support our projections that gaming win for the year should increase 10 to 12 percent. Win rose 4.4 percent in March and 13.7 percent in April. Gaming win for 1986 through April rose 10.8 percent. Last year, June, July and August were strong and therefore growth during these months this year may only be 5 percent. However, double digit gains should resume in September and continue through the year-end.

Our overall industry view is modestly positive. Starting in July, there will be no new casinos to distort the year-over-year comparisons. So gaming win per casino and near-term profits should rise. The industry and regulatory bodies appear to be beginning to address some of the industry's problems. Full-service air transportation and trial 24-hour-a-day gaming seem probable in a year.

Increases in capacity should resume in 1987 but on a scale that appears manageable. Our long-term outlook is for limited earnings gains but stable, predictable high-cash flow.

Mark Manson
Vice President
Donaldson, Lufkin & Jenrette

"Prospects remain bright in 1986"

Prospects for the gaming-related industry remain bright in 1986. I am a firm believer that the true inside story of any industry is the performance of its underlying equities. This industry has enjoyed a strong performance relative to both the securities markets and other consumer-oriented industries since late 1984.

Exercising eclectic license, I believe that the industry's glad tidings will be complemented by extraordinary events that have already begun to substantially alter the domestic tourist trade. The Libyan incident and the spread of terrorism abroad should contribute to an industry that is already on strong fundamental footing.

On the other hand, lopsided emphasis on the terrorism angle does not befit the casino business. Such a circumstance should only be the "icing" on the industry, which has consistently demonstrated strong management strategy and business tactics. I feel that the abrupt interruption of foreign travel by American citizens will best serve to improve Wall Street's long-term attitude toward the industry and will also act to introduce new customers, especially to Atlantic City casinos.

I believe that the industry is poised for one of its best periods during the 1980s and that this will be reflected in the industry's stock performance over the next 12 to 18 months.

Eugene E. Peroni, Jr.
Vice President
Director of Technical Research
Bateman Eichler Hill Richards

"By 1991 Atlantic City will have 13,000 hotel rooms"

We believe 1986 will be a very good year for the casino industry. We see a major turnaround for Atlantic City casinos and continued margin improvement for Nevada casinos.

In just eight years Atlantic City has built a $2+ billion market which is now growing at about 10 percent annual rate to about 7 percent. Over the next several years we believe the Atlantic City market will continue to grow at a rate about 50 percent faster than the Nevada market.

Atlantic City's casino earnings are another story. In the last three years the New Jersey shore casinos' earnings have been in a nosedive. During the same five-year period, Nevada casino earnings have risen to $250 million from $75 million. However, we are optimistic that Atlantic City casinos will see a turnaround in the last half of 1986.

Because of the high fixed overhead characteristics of this labor-intensive industry, the leveraged effects of revenue changes on operating margins can be enormous. Labor costs, at 26 percent of total revenues, are one of the highest expense elements in a casino/hotel.

But the high leverage factor works both ways. That is why we are becoming more optimistic about a significant improvement in the margins for Atlantic City. If 24-hour gaming passes, we estimate that revenues would increase about 5 percent, or $100 million annually. Bottom-line results could improve dramatically; we estimate that as much as 65 cents of each incremental dollar generated from around-the-clock gaming could flow to pretax income as additional staffing requirements would be minimal.

Another strong factor for the industry is the substantial decline in interest rates. We expect to see some major refinancings at friendlier rates. For example, Caesars World recently raised $100 million through convertible debentures at 6.875 percent interest.

As for Nevada — Las Vegas in particular — casinos have adapted well to a changing market. Currently, the overall Las Vegas market is growing about 7 to 8 percent annually — a rate we believe to be sustainable over the foreseeable future.

Long term, the outlook for the gaming industry continues positive. By 1991 Atlantic City will have changed dramatically — with 13,000 hotel rooms, more than double the current number. Several thousand of these rooms will be in noncasino hotels. Then the city will be able to market its services to a host of new customers beyond the present 250-mile radius. Most people who are exposed to gaming tend to become repeat customers.

While we do not believe that gaming will be legalized in any new jurisdictions this year — except possibly New Orleans — the outlook may change when Atlantic City can demonstrate its revitalization. It is far more palatable to lawmakers as well as taxpayers to introduce new methods for raising revenues rather than raise current taxes when local economies become depressed.

Marvin B. Roffman
Financial Analyst
Janney Montgomery Scott

"Atlantic City should see a sharp upswing in the second half"

In Atlantic City, we look for an 8 to 13 percent increase in the "win" in 1986, but the majority of that gain will reflect incremental capacity from the full-year operation of Trump Castle (open only half a year in 1985) and expansions at existing casinos, such as the year-end addition to Harrah's Marina.

We expect profits to continue in a downtrend in the first half of the year (representing the eight and ninth consecutive quarters of decline) due to demand increases lagging the growth in casino square footage. However, Atlantic City should see a sharp upswing in the second half, when demand growth should exceed supply growth. At that time there should be solid increases for the whole market. We do not expect the domestic travel boom to significantly aid Atlantic City, since it is predominantly a "day tripper" market, not a destination resort.

The Las Vegas market should experience a modest benefit from a pickup in domestic travel since it is a "destination market" with a longer average length of stay. But the addition of over 4,000 rooms to hotel capacity in the city may mean the "pie" will have to

be divided among more "players." This will exert profit margin pressures on some casino/hotels. Two properties that should gain market share due to recent expansions/renovations are the Flamingo Hilton and Ramada's Tropicana. On the other hand, a negative impact on Las Vegas may also be felt from the California Lottery.

New jurisdictions for gaming are possible, but too difficult to forecast due to the influence of politics and the "emotional" nature of the gaming issue. If Louisiana approves gaming — due to the need to replace lost oil revenues — Las Vegas may be hurt, because New Orleans can compete in convention facilities, climate and tourist appeal.

John J. Robs
Vice President - Research
Wertheim & Co., Inc.

"1985 was a year of disappointment"

For gaming companies, 1985 was a year of disappointment and struggle in Atlantic City, and one of moderate growth and optimism in Nevada.

In the East, the opening of Trump's Castle, the 11th Atlantic City casino, was accompanied by lots of anguish and declining industry profits. However, the shore resort's profit outlook has been stabilized in 1986 because of a stretch-out in the completion date of several projects originally to have opened over the next 12 months. The new 60,000-square-feet Showboat facility is now scheduled to open no earlier than February 1987, and an opening date for the new Resorts II is not yet in sight.

What happens to Resorts II will be significant to the industry at large. If the full-blown operation opens for business by mid-1987, with over 1,000 rooms and a 120,000-square-feet casino, the industry will be faced with a considerable absorption problem.

As for Atlantic City's infrastructure, we have generally held to the view that the overall casino market is fairly mature, and that "infrastructure" was a nice excuse used by the apologists for lower profits. In 1985, we estimate that the Atlantic City industry generated less than $100 million in pretax profits on a revenue base of $2.15 billion — which is a pretax margin well under the 5 percent earned in 1984.

If, as in Atlantic City, it takes over $1 of investment to turn $1 in revenue, and merely five cents in pretax profits, then the voters and financiers who are pushing for casinos in Miami Beach might want to give more thought as to why they really want and need such operations.

As for Nevada, the outlook seems considerably more positive, although not altogether satisfactory. Circus Circus, Hilton and the Golden Nugget have large new investments coming on stream that should bear fruit in 1987. Las Vegas has seen something of a revival, but, in our opinion, the town is not what it used to be in the early to mid-1970s. With slots now accounting for over half the gross win, and with live entertainment somewhat deemphasized, there is less excitement in the air.

Harold L. Vogel, C.F.A.
Vice President
Merrill Lynch

NEVADA SUMMARY

For the Nevada casino industry, 1985 was a year of cross-currents and anomalies — a year in which many of the old-time performance patterns were radically refashioned.

On balance, as shown in Chart J, bottom-line performance of the state's casinos has snapped back dramatically since the low ebb of 1983, although they have not matched the peak year of 1980.

In addition, as was the case last year, widely divergent patterns were apparent throughout the state on both a revenue and pretax profit comparison.

For example, it was a year in which the city of Las Vegas continued to make a comeback, upholding its reputation as a world-class destination resort; on the other hand, it was also a year in which the five casinos in Laughlin, a speck on the Colorado River still ignored on many maps, posted more pretax income than the 21 casinos in downtown Las Vegas, and produced a profit margin far above any other casinos.

In particular, it was a year in which most of the 38 Strip casinos once again had reason to bask in their bright lights; they produced an aggregate pretax income margin of 11.4 percent of total revenues, a substantial improvement over the 8.3 percent pretax margin of 1984. Even more remarkably, the total increase of almost 45 percent was accomplished on a revenue improvement of but 5 percent — an indication that managements of those casino/hotels with good bottom-line recoveries have learned how to control operating costs. The bottom-line improvements also substantiate an old truism: When saddled with high fixed operating costs, a little extra gross goes a long way toward improving the net.

On the darker side of Las Vegas financial activities, 1985 was also a year in which at least three famous Strip operations either teetered on the verge of or fell into bankruptcy, opening the way — for the first time in Nevada history — for a foreign national to bid on one, applying for an operator's license.

Even more significantly, over 40 percent of the state's total 145 "Group 1" casinos* posted a loss in 1985 — compared with 18 percent of the total 115 in 1978. Putting it another way, 71 percent of all "Group 1" casinos in 1978 were profitable; in 1985 only 40 percent were.

There were other noteworthy developments in 1985, as shown in Table K (page 26), which was prepared by Laventhol & Horwath from figures made public by the Nevada State Gaming Control Board.

The 29 casinos in the Reno/Sparks area showed a drop of 29 percent in pretax profits on slightly higher revenues (up 4 percent). In the same vein, revenues of the seven casino/hotels in the South Lake Tahoe/Douglas County area were flat, although pretax earnings showed slight improvement, up to a 3.5 percent margin versus 0.6 percent last year. For a region with so much potential as a destination resort, 1986 should present opportunities for improvement.

Of particular concern to many observers has been the steady pretax profit decline of downtown Las Vegas casinos since 1980, as dramatically highlighted by Chart J. Hopefully, this trend may be reversed in 1986 as new guest rooms come on stream for the middle-class customers who have traditionally provided so much vitality to the neighborhood.

As the new "Ace" of the casino pack, it is only natural that Laughlin has continued to capture the jackpot of public attention. With the anticipated 1987 addition of a new 60,000-square-feet Circus Circus casino plus a planned Holiday/Harrah's, this resort will have stretched its capacity considerably — possibly to the adolescent growing stage. Taking a cue from Atlantic City's recent history, it should be remembered that no new jurisdiction, no matter how appealing, can expect to continue the same incremental growth as it matures.

Some veteran Las Vegas operators are also concerned that Laughlin is already siphoning off some of their present trade — particularly that of local residents, traditionally ignored by some big casinos, who find it a relaxed, fun place to get away and bet their loose change.

Looking to the long term, the state of Nevada has much in the way of hotel rooms, casino facilities and well-established infrastructure supports to continue growth as a first-class destination resort. Recent years have been a notable experience for the present generation of operators, and they have learned to adjust well to the volatile market. They have learned to live with Atlantic City competition; they have learned to live without the high-rollers from Mexico and the Mideast. They met the challenges of the workers' strike and are now painfully learning to cope with the new regulations — sparked by the IRS — requiring documentation of cash transactions by a player of over $10,000.

The future is there for operators who have wisely prepared for it.

*"Group 1" casinos are licensees grossing $1 million or more in gaming revenue annually, which produce approximately 95 percent of all Nevada's gaming revenue.

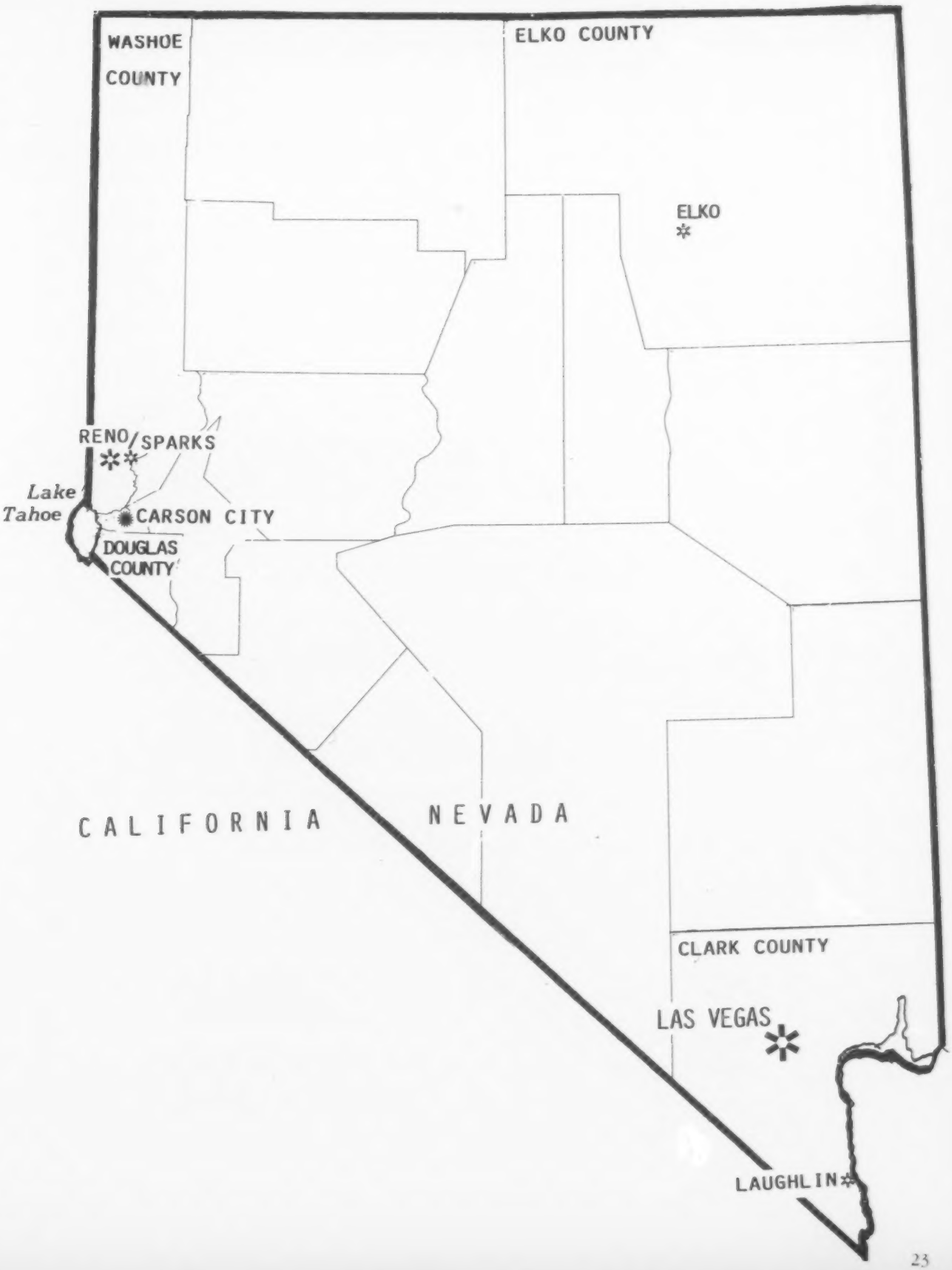
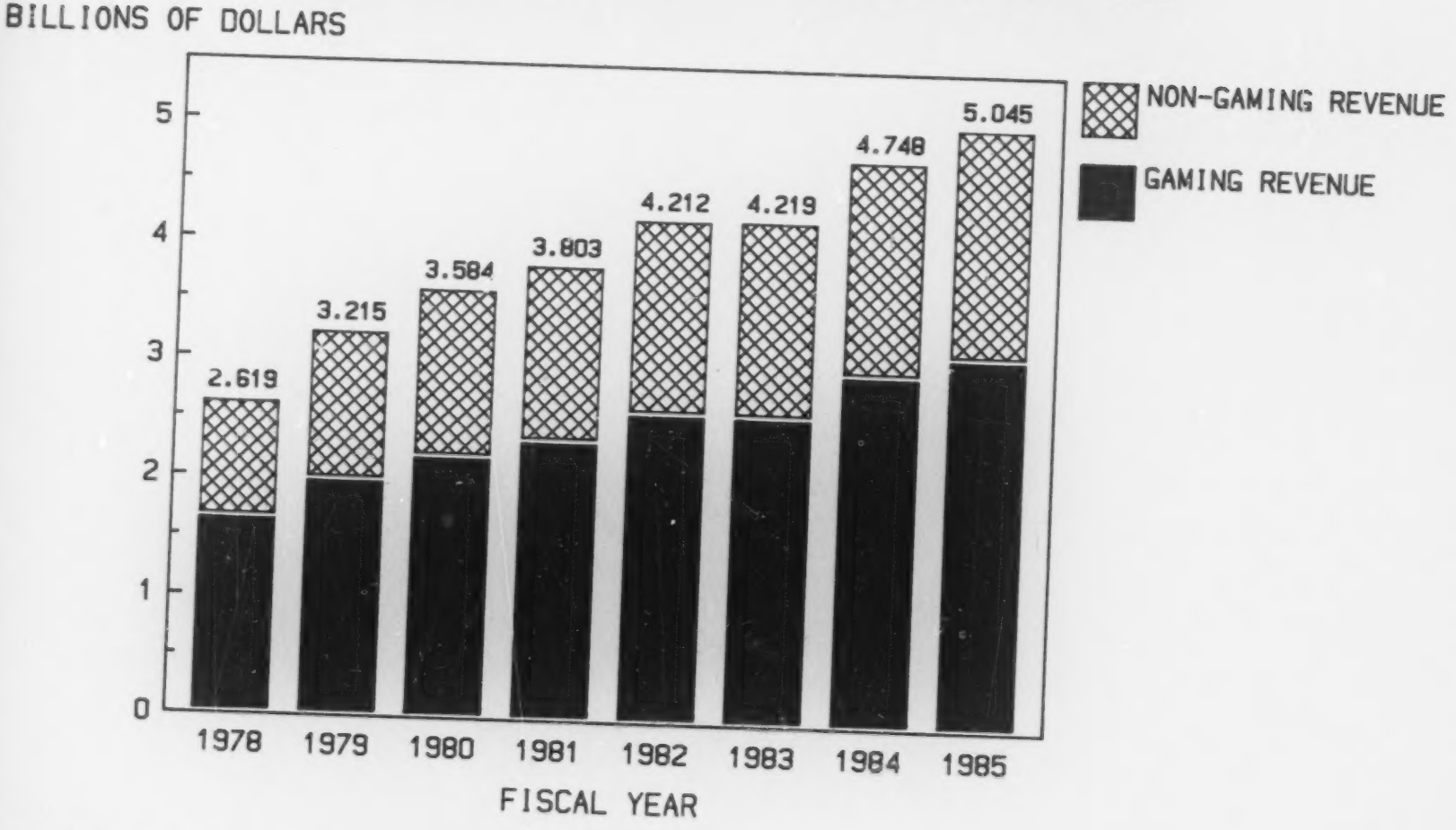
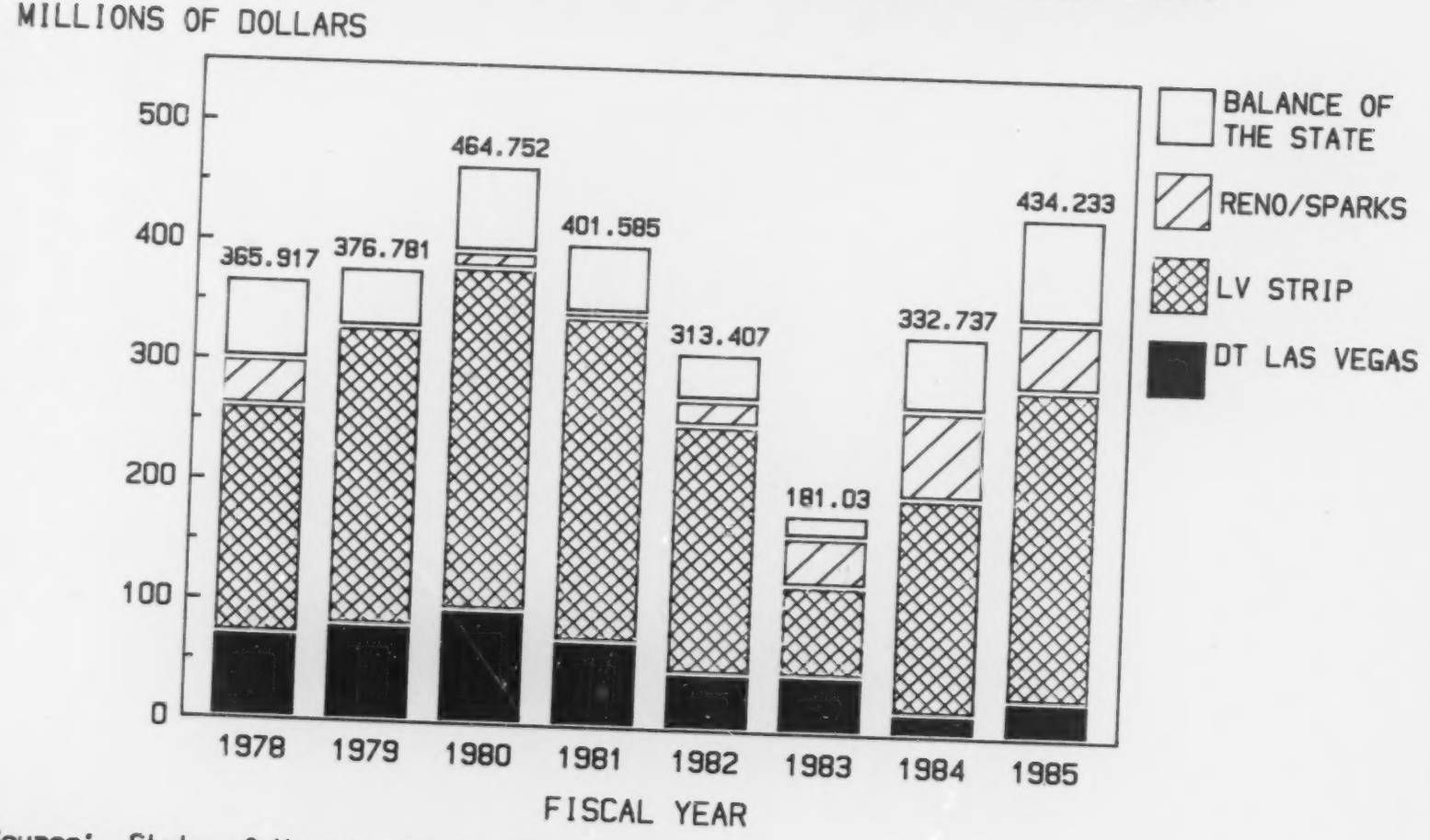

WASHOE
COUNTY
ELKO COUNTY
ELKO
RENO/SPARKS
Lake
Tahoe
CARSON CITY
DOUGLAS
COUNTY
CALIFORNIA
NEVADA
CLARK COUNTY
LAS VEGAS
LAUGHLIN

CHART H
CURRENT DOLLAR TOTAL GROSS REVENUES FOR NEVADA'S GROUP I CASINOS FISCAL YEAR 1978 - FISCAL YEAR 1985



Source: State of Nevada, Gaming Control Board.

CHART J
CURRENT DOLLAR PRETAX PROFITS BY MAJOR MARKET AREA - GROUP I CASINOS FISCAL YEAR 1978 - FISCAL YEAR 1985



Source: State of Nevada, Gaming Control Board.
Footnotes: In fiscal year 1979 Reno/Sparks showed a net loss.

Table K
Nevada Operating Results
Licensees Grossing $1 Million or More in Gaming Revenue
Year Ended June 30, 1985
($000 omitted)

	Statewide		Clark County Strip		Clark County Downtown		Clark County Boulder Highway	
Number of Locations	145		38		21		7	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	$3,103,770	61.5	$1,318,568	57.9	$441,023	69.0	$ 77,043	66.7
Hotel and Other	1,941,139	38.5	960,612	42.1	197,720	31.0	38,515	33.3
Total	5,044,909	100.0	2,279,180	100.0	638,743	100.0	115,558	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	4,153,066	82.3	1,804,305	79.2	547,507	85.7	90,288	78.2
Interest	198,301	3.9	101,013	4.4	21,359	3.3	6,960	6.0
Depreciation and Amortization	259,309	5.2	114,000	5.0	40,008	6.3	6,618	5.7
Total	4,610,676	91.4	2,019,318	88.6	608,874	95.3	103,866	89.9
Income Before Federal Income Tax and Extraordinary Items	$ 434,233	8.6	$ 259,862	11.4	$ 29,869	4.7	$ 11,692	10.1
Supplementary Casino Information:								
Casino Revenue:								
Pit	$1,377,644	44.4	$ 720,559	54.6	$183,849	41.7	$16,922	22.0
Coin-operated Machines	1,610,826	51.9	544,063	41.3	238,263	54.0	57,182	74.2
Other	115,300	3.7	53,946	4.1	18,911	4.3	2,939	3.8
Total	3,103,770	100.0	1,318,568	100.0	441,023	100.0	77,043	100.0
Costs and Expenses:								
Labor	699,714	22.5	297,073	22.5	102,733	23.3	15,801	20.5
Other	827,319	26.7	414,190	31.4	108,056	24.5	11,434	14.9
Total	1,527,033	49.2	711,263	53.9	210,789	47.8	27,235	35.4
Casino Department Income	$1,576,737	50.8	$ 607,305	46.1	$230,234	52.2	$49,808	64.6
Revenue Information per Location:								
Average Revenue	$34,792		$59,978		$30,416		$16,508	
Upper Quartile	47,652		97,988		48,707		16,298	
Median	16,118		32,552		19,509		8,358	
Lower Quartile	5,051		7,295		4,183		6,360	

Clark County Laughlin		Douglas County South Lake Tahoe		Elko County		Washoe County Reno/Sparks		Balance of State	
5		6		11		29		28	
$	%	$	%	$	%	$	%	$	%
$124,721	72.9	$284,819	63.3	$ 67,834	58.7	$586,709	62.2	$203,053	61.2
46,268	27.1	164,975	36.7	47,787	41.3	356,329	37.8	128,933	38.8
170,989	100.0	449,794	100.0	115,621	100.0	943,038	100.0	331,986	100.0
125,729	73.5	398,475	88.6	101,771	88.0	809,984	85.9	275,007	82.8
5,616	3.3	14,207	3.2	4,541	3.9	29,046	3.1	15,559	4.7
7,572	4.4	21,214	4.7	5,768	5.0	47,304	5.0	16,825	5.1
138,917	81.2	433,896	96.5	112,080	96.9	886,334	94.0	307,391	92.6
$ 32,072	18.8	$ 15,898	3.5	$ 3,541	3.1	$ 56,704	6.0	$ 24,595	7.4
$ 26,703	21.4	$141,342	49.6	$23,750	35.0	$207,540	35.4	$ 56,979	28.1
94,948	76.1	135,285	47.5	42,802	63.1	360,034	61.4	138,249	68.1
3,070	2.5	8,192	2.9	1,282	1.9	19,135	3.2	7,825	3.8
124,721	100.0	284,819	100.0	67,834	100.0	586,709	100.0	203,053	100.0
20,160	16.1	64,335	22.6	15,361	22.7	141,513	24.1	42,738	21.1
22,052	17.7	91,743	32.2	16,360	24.1	125,637	21.4	37,847	18.6
42,212	33.8	156,078	54.8	31,721	46.8	267,150	45.5	80,585	39.7
$ 82,509	66.2	$128,741	45.2	$36,113	53.2	$319,559	54.5	$122,468	60.3
$34,198		$74,966		$10,511		$32,519		$11,857	
		99,417		18,042		49,086		16,179	
		77,315		7,703		17,472		5,573	
		7,741		5,443		8,024		3,051	

ATLANTIC CITY SUMMARY

The gap between the top line and the bottom line of Atlantic City's casino group—as seen in the bar graph—widened in 1985. The great expectations of the industry's formative years are yet to materialize.

In aggregate, the total revenue of the city's 11 casinos rose to $2.14 billion, an increase of 9.6 percent over 1984. But income before income tax of the casino group, taken as a whole, sank for the third straight year—to $102 million, or an aggregate pretax profit margin of 2.1 percent.

At first glance the three-year performance of Atlantic City's casinos paints an unimpressive picture, as high fixed operating costs, high interest costs, increased competition and a maturing market combined to put pressure on profit margins and earnings in this highly leveraged, capital-intensive industry. Only two of the casino/hotels produced pretax profit margins of 9 percent or better. Two showed losses. The rest had pretax margins of less than 3.5 percent.

What the figures do not reveal on the positive side is that most of the city's operators have entered 1986 leaner, tougher and smarter: They have trimmed budgets; they are monitoring labor costs intensely (in 1985 they held the increase in payroll costs per employee to 3.8 percent); they have eliminated layers of management flab; they have cut back on costly cabaret and headliner floor-show budgets and are monitoring nonproductive comps. Also, casino executives and the city's elected officials are, at last, conducting regular dialogues on matters of mutual interest.

In 1986, casino operators will benefit from another economic factor: there will be no significant increase in casino supply for the first time in several years. This should dramatically improve the net income.

All this does not mean that the Atlantic City casino industry will go through 1986 "free and clear." Many of the complex problems the city faced in 1984 and 1985 still exist today. But a few signs of progress are seen.

Better airline service should be in the offing. Lower gasoline prices during summer 1986 may encourage more midweek travel to the resort. Unfortunately, when visitors arrive they will still be greeted with visions of urban blight. The city's streets will still be clogged with traffic.

Looking at the long term, for Atlantic City casinos to capitalize on the full capacity of their facilities—and reach their long-hoped-for profit level—they are fully aware that they must expand their consumer market beyond the current New Jersey-New York-Eastern Pennsylvania radius. They also know that the city cannot become a complete resort/convention destination like Las Vegas or Reno-Tahoe until new hotel rooms and extra attractions become a reality.

The city may begin to reach an important transition stage in 1987 upon the projected opening of Resorts International II, with its 1,300 rooms plus large convention area, and the Atlantic City Showboat, which will be aimed at the "middle market" like its Las Vegas sibling. However, this increase in capacity will again put stress on the operations of existing properties. Additional noncasino hotel rooms are being discussed, but actual construction may be a long way off because of current high land costs.

By law, casinos are now required to invest 1¼ percent of their gross in a state-mandated urban redevelopment program. The tax is expected to yield New Jersey $1.6 billion over the next 25 years, of which $750 million has been earmarked for Atlantic City.

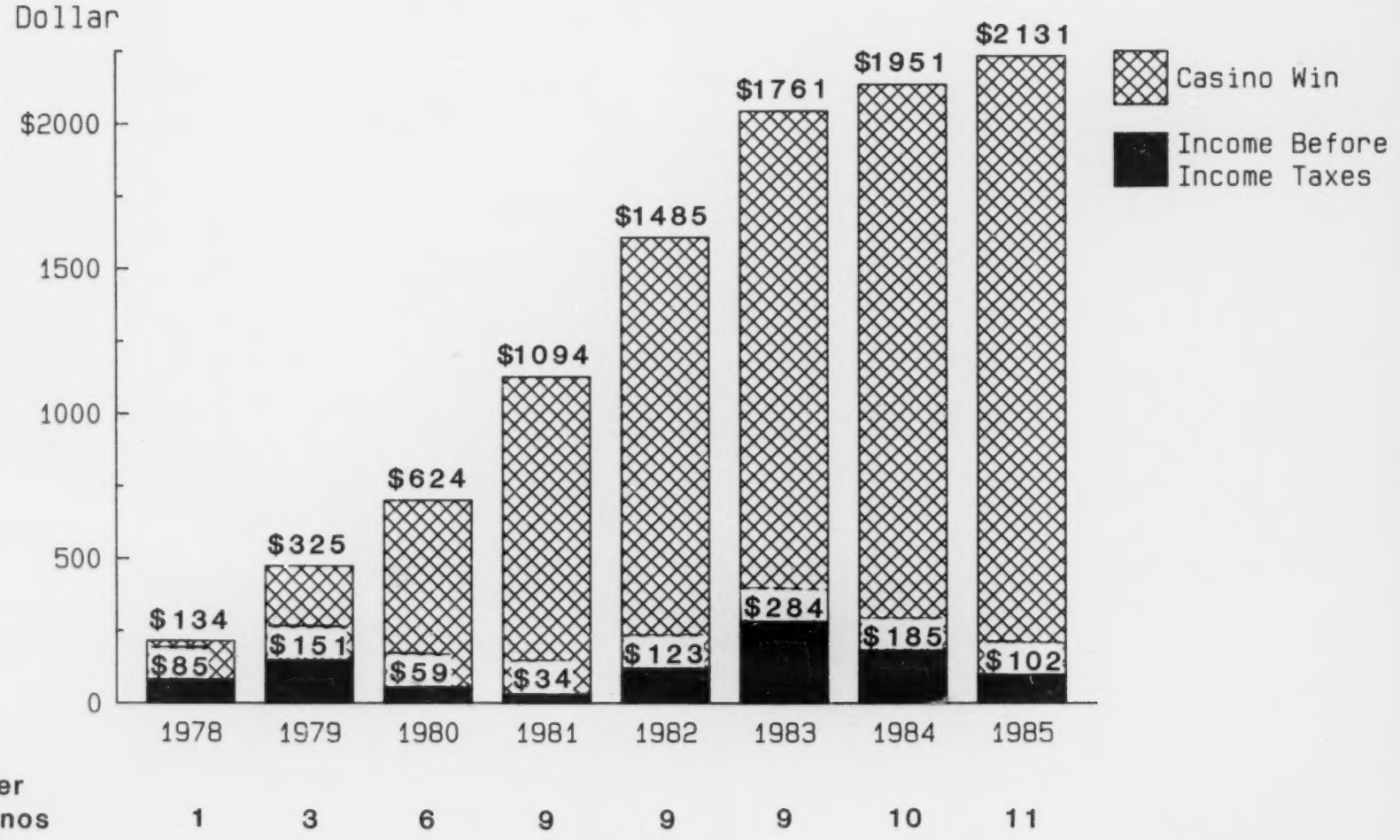
Banking on this cash flow, a $125 million revenue bond issue has been sold to finance Phase I of a master redevelopment plan. Included in this is a five-track railroad terminal (to enable maximum use of the much-heralded high-speed rail link from Philadelphia) and a new 450,000-square-feet convention center.

Despite the current negative factors, it should not be overlooked that in its eight years as a casino resort, Atlantic City has contributed approximately $1.5 billion in revenues to the state of New Jersey and last year alone generated $630 million in wages and benefits for 37,000 wage earners, whose jobs did not exist before the advent of casinos. These statistics are of little encouragement to casino shareholders and bondholders, but they may someday help to convince state gaming authorities, both elective and appointive, that the current regulatory climate is not only onerous, but costly as well.

The information in Table L on pages 30-31 was derived from the annual reports filed with the New Jersey Casino Control Commission.

ATLANTIC CITY OPERATING RESULTS

(In Millions of Dollars)



Source: Laventhol & Horwath.

Table L
Atlantic City Operating Results
($000 omitted)

	Total		Atlantis		Bally's Park Place		Caesars Atlantic City		Claridge	
Date Opened			Apr 1981		Dec 1979		July 1979		July 1981	
	$	%	$	%	$	%	$	%	$	%
Condensed Income Summary:										
Revenue										
Casino	$2,130,948	88.6	$136,893	88.8	$224,521	86.2	$248,209	88.1	$117,944	84.5
Hotel and Other	562,979	23.4	44,322	28.7	51,754	19.9	68,442	24.3	39,560	28.3
Promotional Allowances	(288,942)	(12.0)	(27,040)	(17.5)	(15,958)	(6.1)	(35,065)	(12.4)	(17,892)	(12.8)
Total	2,404,985	100.0	154,175	100.0	260,317	100.0	281,586	100.0	139,612	100.0
Costs and Expenses (Net)										
Total Exclusive of Items Shown Below	1,987,242	82.6	153,725	99.7	179,686	69.0	222,917	79.2	148,867	106.6
Interest	210,881	8.8	22,141	14.3	13,298	5.1	23,505	8.3	15,041	10.8
Depreciation and Amortization	134,083	5.6	9,046	5.9	23,338	9.0	16,093	5.7	2,909	2.1
Management Fees	31,575	1.3	3,281	2.1					4,457	3.2
Nonoperating Expenses (Income)	(60,830)	(2.5)	(398)	(0.2)					(16,938)	(12.1)
Income Taxes	50,485	2.1			20,500	7.9	9,423	3.4	26	
Total	2,353,436	97.9	187,795	121.8	236,822	91.0	271,938	96.6	154,362	110.6
Net Income (loss)	$ 51,549	2.1	($ 33,620)	(21.8)	$ 23,495	9.0	$ 9,648	3.4	($ 14,750)	(10.6)
Supplementary Casino Information:										
Casino Square Footage	582,000		50,500		60,000		60,000		34,000	
Casino Revenue										
Table Games	$1,050,909	49.3	$ 66,438	48.5	$ 98,928	44.1	$135,928	54.8	$ 53,847	45.6
Coin-operated Machines	1,080,039	50.7	70,455	51.5	125,593	55.9	112,281	45.2	64,097	54.4
Total	$2,130,948	100.0	$136,893	100.0	$224,521	100.0	$248,209	100.0	$117,944	100.0
Approximate Average Monthly Casino Revenue per Square Foot	$305.00		$224.00		$312.00		$345.00		$289.00	

Golden Nugget		Harrah's Marina		Resorts International		Sands		Tropicana		Trump Casino Hotel	
Dec 1980		Nov 1981		May 1978		Aug 1980		Nov 1981		May 1984	
$	%	$	%	$	%	$	%	$	%	$	%
$241,179	91.5	$215,536	88.0	$240,493	88.3	$178,475	92.2	$210,792	89.6	$201,960	87.4
58,156	22.1	57,355	23.4	64,646	23.7	32,390	16.7	52,883	22.5	64,514	27.9
(35,822)	(13.6)	(28,018)	(11.4)	(32,676)	(12.0)	(17,393)	(8.9)	(28,310)	(12.1)	(35,368)	(15.3)
263,513	100.0	244,873	100.0	272,463	100.0	193,472	100.0	235,365	100.0	231,106	100.0
205,810	78.1	182,076	74.4	220,069	80.8	151,662	78.4	231,250	98.3	196,137	84.9
43,787	16.6	1,497	0.6	33,559	12.3	14,748	7.6	4,023	1.7	18,065	7.8
12,279	4.7	7,828	3.2	13,681	5.0	12,357	6.4	8,065	3.4	16,771	7.2
14,975	5.7			2,815	1.0	5,574	2.9	473	0.2		
(15,971)	(6.1)	(244)	(0.1)	(3,997)	(1.5)	(801)	(0.4)	(19,975)	(8.5)	(953)	(0.4)
1,062	0.4	4,9481	2.0	3,168	1.2	5,602	2.9	5,303	2.3	221	0.1
261,942	99.4	196,105	80.1	269,295	98.8	189,142	97.8	229,139	97.4	230,241	99.6
$ 1,571	0.6	$ 48,768	19.9	$ 3,168	1.2	$ 4,330	2.2	$ 6,226	2.6	$ 865	0.4
42,500		54,000		60,000		49,000		51,000		60,000	
$127,552	52.9	$ 87,059	40.4	$121,502	50.5	$ 93,406	52.3	$106,200	50.4	$104,183	51.6
113,627	47.1	128,477	59.6	118,991	49.5	85,069	47.7	104,592	49.6	97,777	48.4
$241,179	100.0	$215,536	100.0	$240,493	100.0	$178,475	100.0	$210,792	100.0	$201,960	100.0
$467.00		$333.00		$334.00		$304.00		$344.00		$281.00	

LOTTERY SUMMARY

The American lottery system took another giant step in 1985, proof that this form of gaming has captured public imagination and has become firmly implanted as a socio-economic phenomenon of the 20th century. Four new state lotteries came on line during the year—California, Missouri, Iowa, Oregon—and West Virginia started operating in January 1986. However, only Oregon had an annual report.

Of those 19 states and the District of Columbia whose fiscal years ended in 1985, the aggregate total of lottery sales reached $9.3 billion, an increase of 26.5 percent over the like figure of $7.4 billion for fiscal 1984.

During 1985, year-to-year gain in percentage terms was somewhat less than 1984, when aggregate revenues rose 37 percent, but impressive nonetheless. Income from these sales flowing into state treasuries rose 28.8 percent over 1984. Or, in dollar terms, $3.8 billion in 1985 versus $3 billion in 1984.

Once again, in 1985, Pennsylvania's lottery topped all others, producing $1.295 billion in lottery sales, outranking New York, Massachusetts and Illinois by less than $100 million. Pennsylvania also produced the greatest net income. When the final accounting is made for 1986, there seems to be little doubt that the new California lottery will take over as the number-one revenue leader, probably surpassing the $2 billion mark.

In terms of per-capita revenue and income, Massachusetts led the way with $212 of revenue and $67 of income. Washington, D.C. was the runner up in revenue while Maryland was the runner up in net income.

While 13 of the jurisdictions reporting had increases in lottery sales compared to last year, five reported declines. Results from Maine, New Hampshire and Vermont provide fuel for the proposal being discussed in New England that the region form a Tri-State lottery with stronger promotion power.

Colorado and Washington have had declining revenue for the past two years although 1986 should show improvement. Several other states are not meeting revenue forecast and the percent of net income to total revenue has been declining in several jurisdictions. This is evidence that there is no guarantee of continued growth and if this trend should continue or accelerate it could question the viability of some lotteries.

Like any form of contemporary leisure-time entertainment or activity, fashions in lottery formats come and go. What might have been a big hit last year might fall on its face in the next. Witness the rapid rise and fall of "video games" and video-game parlors. As with any new product in today's volatile consumer climate, marketing is a key, but so, too, is imagination by the originator. No lottery director can count on last year's success. Tomorrow is a whole new game.

The financial information set forth in Table M (pages 34-38) was derived from annual reports issued by the various jurisdictions. Direct comparison of these lotteries may not be meaningful because of differences in state population, differences in lottery games, promotion and other factors. It should also be remembered that this information is for fiscal years which ended at various months in 1985. The per-capita breakdown was based on latest figures by the U.S. Census Bureau as of July 1, 1984.

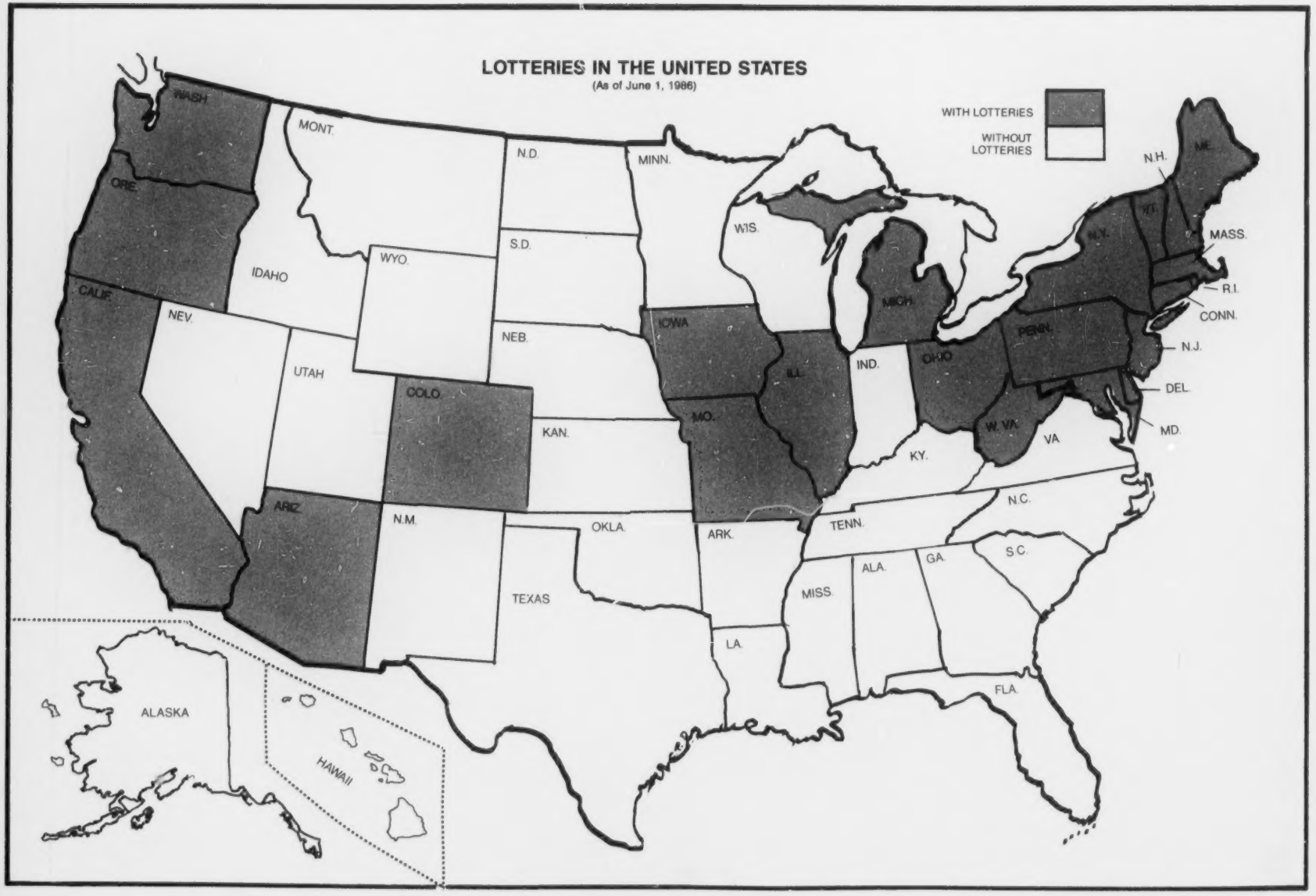

LOTTERIES IN THE UNITED STATES
(As of June 1, 1986)
WITH LOTTERIES
WITHOUT LOTTERIES
WASH.
ORE.
CALIF.
NEV.
IDAHO
MONT.
WYO.
UTAH
ARIZ.
COLO.
N.M.
N.D.
S.D.
NEB.
KAN.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WIS.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W. VA.
PENN.
N.Y.
MD.
DEL.
N.J.
CONN.
R.I.
MASS.
VT.
N.H.
ME.
ALASKA
HAWAII

Table M
Lottery Operating Results
(000's omitted, except for per capita information)

	Total		Arizona		Colorado		Connecticut	
Fiscal Year-End			June		June		June	
	$	%	$	%	$	%	$	%
1985								
Revenue:								
Lottery Sales	**$9,307,050**	**98.9**	$72,875	99.9	$109,500	100.0	$344,458	100.0
Other	**95,948**	**1.0**	41	.1				
Total	**9,402,998**	**100.0**	72,916	100.0	109,500	100.0	344,458	100.0
Expenses & Prizes:								
Commissions	**533,662**	**5.7**	4,553	6.2	6,300	5.8	[1]	
Other Operating Expenses	**400,954**	**4.3**	12,251	16.8	13,000	11.9	16,959	4.9
Prizes	**4,641,540**	**49.4**	33,468	45.9	57,100	52.1	178,699	51.9
Total	**5,576,156**	**59.3**	50,272	68.9	76,400	69.8	195,658	56.8
Net Income	**3,826,842**	**40.7**	22,644	31.1	33,100	30.2	148,800	43.2
Per Capita:[2]								
Lottery Sale Revenue			23.87		34.46		109.21	
Net Income			7.42		10.42		47.18	
1984								
Revenue	**7,415,603**	**100.0**	59,329	100.0	120,590	100.0	254,410	100.0
Net Income	**2,971,393**	**40.1**	21,310	35.9	40,678	33.7	105,425	41.4
1983								
Revenue	**5,540,055**	**100.0**	74,903	100.0	138,083	100.0	188,361	100.0
Net Income	**2,165,133**	**39.1**	22,970	30.7	48,158	34.9	80,500	42.7

[1] Information not available.
[2] Estimates of population per the Bureau of Census as of July 1, 1984.

Delaware		Illinois		Maine		Maryland		Massachusetts	
June		June		June		June		Nov.	
$	%	$	%	$	%	$	%	$	%
$38,460	99.3	$1,207,595	100.0	$15,946	100.0	$681,067	100.0	$1,230,137	99.6
290	.7							5,132	.4
38,750	100.0	1,207,595	100.0	15,946	100.0	681,067	100.0	1,235,269	100.0
3,255	8.4	80,631	6.7	1,780	11.2	27,376	4.0	48,195	3.9
1,084	2.8	22,528	1.9	1,875	11.7	25,220	3.7	67,446	5.5
19,394	50.0	587,652	48.7	7,911	49.6	364,801	53.6	729,359	59.0
23,733	61.2	690,811	57.3	11,566	72.5	417,397	61.3	845,000	68.4
15,017	38.8	516,784	42.7	4,380	27.5	263,670	38.7	390,269	31.6
62.74		104.91		13.79		156.60		212.17	
24.50		44.89		3.79		60.63		67.31	
33,125	100.0	887,969	100.0	15,983	100.0	536,808	100.0	961,199	100.0
14,021	42.3	379,842	42.8	4,516	28.3	216,898	40.4	300,967	31.3
29,952	100.0	494,937	100.0	13,100	100.0	462,821	100.0	617,024	100.0
10,749	35.9	214,898	43.4	3,694	28.2	198,235	42.8	166,468	27.0

Table M *(continued)*
Lottery Operating Results
(000's omitted, except for per capita information)

	Michigan		New Hampshire		New Jersey		New York	
Fiscal Year-End	June		June		June		March	
	$	%	$	%	$	%	$	%
1985								
Revenue:								
Lottery Sales	$885,538	99.4	$15,133	99.3	$924,599	98.8	$1,271,167	97.8
Other	5,706	.6	109	0.7	11,494	1.2	27,952	2.2
Total	891,244	100.0	15,242	100.0	936,093	100.0	1,299,119	100.0
Expenses & Prizes:								
Commissions	60,100	6.7	679	4.5	65,183	7.0	78,850	6.1
Other Operating Expenses	45,185	5.1	2,914	19.1	19,891	2.1	59,757	4.6
Prizes	426,545	47.9	7,340	48.2	460,151	49.2	560,567	43.1
Total	531,830	59.7	10,933	71.8	545,225	58.3	669,174	53.8
Net Income	359,414	40.3	4,309	28.2	390,868	41.7	599,945	46.2
Per Capita:								
Lottery Sale Revenue	97.58		15.49		123.03		71.68	
Net Income	39.60		4.41		52.01		33.83	
1984								
Revenue	594,056	100.0	17,168	100.0	856,191	100.0	900,034	100.0
Net Income	236,370	39.8	5,658	33.0	358,324	41.9	390,542	43.4
1983								
Revenue	560,948	100.0	13,820	100.0	698,965	100.0	651,397	100.0
Net Income	221,161	39.6	3,689	26.7	296,945	42.5	275,244	42.2

[5] Oregon State Lottery commenced as of May 1985.

Ohio		Oregon[3]		Pennsylvania		Rhode Island	
June		June		June		June	
$	%	$	%	$	%	$	%
$854,633	99.9	$42,236	99.4	$1,294,742	96.9	$52,268	98.2
931	.1	254	.6	41,780	3.1	978	1.8
855,564	100.0	42,490	100.0	1,336,522	100.0	53,246	100.0
47,214	5.5	2,112	5.0	86,703	6.5	6,453	12.1
45,503	5.3	4,352	10.2	24,167	1.8	2,345	4.4
425,520	49.7	21,522	50.7	604,365	45.2	25,868	48.6
518,237	60.5	27,986	65.9	715,235	53.5	34,666	65.1
337,327	39.5	14,504	34.1	621,287	46.5	18,580	34.9
79.49		15.80		108.79		54.33	
31.37		5.42		52.20		19.31	
604,322	100.0	N/A	—	1,263,230	100.0	53,930	100.0
245,838	40.6	N/A	—	543,459	43.0	18,326	34.0
398,957	100.0	N/A	—	893,566	100.0	44,196	100.0
147,699	37.0	N/A	—	363,569	40.7	14,791	33.5

Table M *(continued)*
Lottery Operating Results
(000's omitted, except for per capita information)

	Vermont		Washington		Washington D.C.	
Fiscal Year-End	June		June		Sept.	
	$	%	$	%	$	%
1985						
Revenue:						
Lottery Sales	$5,198	99.4	$149,500	99.7	$111,998	99.3
Other	33	.6	454	.3	794	.7
Total	5,231	100.0	149,954	100.0	112,792	100.0
Expenses & Prizes:						
Commissions	262	5.0	7,893	5.3	6,123	5.4
Other Operating Expenses	1,125	21.5	18,538	12.4	16,814	14.9
Prizes	2,609	49.9	70,756	47.1	57,913	51.3
Total	3,996	76.4	97,187	64.8	80,850	71.6
Net Income	1,235	23.6	52,767	35.2	31,942	28.4
Per Capita:						
Lottery Sale Revenue	9.81		34.38		179.77	
Net Income	2.33		12.13		51.27	
1984						
Revenue	5,148	100.0	165,798	100.0	86,313	100.0
Net Income	1,285	25.0	65,164	39.3	22,770	26.4
1983						
Revenue	4,552	100.0	200,117	100.0	54,356	100.0
Net Income	1,116	24.5	83,969	42.0	10,278	18.9

COMMENTS FROM STATE LOTTERY OFFICIALS

The following is a sampling of comments taken from public annual reports of state lotteries. Commentaries from some states were not available where there is no name listed.

Arizona

. . . "For the first time since the Lottery's inception, we have shown an increase in sales over the preceding fiscal year. . . This dramatic turnaround can best be summed up in two words: 'The Pick'."

"For the last nine months of the fiscal year our traditional instant lottery games were joined by 'The Pick,' a six out of thirty-six lotto game. And thousands of Arizonans made our new game part of the regular weekly routine. . ."

". . . From the first day of 'The Pick' . . . sales far exceeded our most optimistic projections. . ."

Charles E. Buri
Executive Director

Colorado

". . . The Colorado Lottery celebrated its third birthday on January 24, 1986. . ."

". . . Of the . . . proceeds distributed in 1985, $16 million was available for capital construction. This money could be used . . . for the following kinds of projects authorized . . . renovations . . . at the University of Colorado . . . Improvements to the Colorado State Fair buildings . . . Planning and construction of a new 250-bed prison. . ."

Raymond J. Herrick, Chairman
Colorado Lottery Commission

Steven V. Berson, Acting Director
State Lottery Division

Connecticut

". . . Fiscal 1984-85 was the thirteenth full year of operation. . . Since its inception the Lottery has generated total sales in excess of $1.7 billion, has transferred over 700 million dollars to the General Fund. . ."

Delaware

". . . 'Helping to build a better Delaware' is more than a slogan of the Delaware State Lottery. It is a statement of the Lottery's accomplishments during its ten years of successful operation."

"In those ten years, Delaware Lottery annual revenue grew some 473 percent, from $6.7 million in fiscal year 1976 to more than $38.4 million this past year. . ."

". . . All Lottery profits deposited in the General Fund are used to help finance a wide variety of state services including education, transportation, services for children, youth and families, health and social services, corrections, the courts and public safety. This Lottery contribution is an added source of revenue that does not otherwise need to be raised by taxes, so all Delawareans benefit from the Lottery. . ."

Albert A. Pavlic
Director

Maryland

". . . On May 15, 1985, the Maryland Lottery celebrated its 12th Anniversary. . ."

". . . The Lottery anticipates in fiscal 1986 to have continued growth in its on-line gaming. . ."

". . . The Maryland Lottery is the third largest contributor . . . to the State's General Fund. From all indications, there will be a substantial sales increase during the next year. . ."

Martin M. Puncke
Director

Michigan

"Enthusiastic player response to Lotto during its first full year, coupled with growth in our two daily games, resulted in a sales increase of some 51 percent. . ."

". . . [Lotto's] impressive contribution to overall Lottery sales growth demonstrated that our newest game, with its multi-million-dollar Jackpots and many smaller prizes, held particular appeal for a new group of players."

"Additional excitement was added . . . with . . . an announcement of drawings on both Wednesdays and Saturdays. Players provided immediate endorsement to this concept with a 40 percent increase in play."

"In addition to shortening the long lines ticket buyers often encountered at retailer locations on weekends by spreading play between the two weekly drawings, the move also provided an increased number of winners. . ."

". . . The Card Game . . . failed to capture a strong following among players. It was discontinued in August. . ."

". . . As anticipated, the success of Lotto resulted in diminished instant game sales. . ."

Michael J. Carr
Commissioner

New Hampshire

". . . For over two decades the New Hampshire Sweepstakes has helped fund our schools and educate our children, while providing fun and excitement for those who enjoy the Sweepstakes games."

"Now we are entering a new era. Joining with our sister states of Maine and Vermont, Granite Staters will soon have an opportunity to play the Tri-State Megabucks, an all new game with big, big prizes. This game is a clear example of the Sweepstakes Commission's commitment to improving the program and increasing our revenue for education . . ."

". . . A new direct ticket delivery system by Sweepstakes representatives has met with very favorable response from agents. This system has benefitted the Sweepstakes as well by vastly improving cash control."

"Computerization of the Sweepstakes' operation has been another ongoing innovation. . ."

John H. Sununu
Governor

George C. Jones
Executive Director

New Jersey

". . . In the great majority of markets, sales grow quickly and easily when successful products are first introduced; but then they level off when markets become saturated. Given the maturing of our product lines, three of our goals for Fiscal Year 1986 are (1) to arrest the decline in sales of our instant games; (2) to revitalize Pick-6 Lotto and prolong its growth; (3) to develop the market for our Pick-4 game."

"We believe our mission is to fulfill our commitment to the State of New Jersey by ensuring sustained growth of Lottery revenues dedicated to education and to State institutions. . ."

". . . Another record-shattering year in Fiscal 1985 brought the New Jersey Lottery close to the coveted goal of one billion dollars in gross sales in one year. . ."

". . . Once again Lottery's three on-line games led the way. . . These products accounted for an overwhelming 92 percent of all Lottery sales for the year. . ."

". . . A new era of improved and more sophisticated services for New Jersey Lottery players began on November 30, 1984. On that date the Lottery put into operation its high tech new computerized sales network for its on-line games."

"Comprised of approximately 3,500 state-of-the art electronic terminals, New Jersey's network is the largest on-line computerized Lottery sales system in the United States. . ."

Dr. Joan Zielinski
Executive Director

New York

"For the fifth year in a row, New York Lottery sales and revenues earned for local education soared in Fiscal 1984-85 to highs never before attained."

"For the first time ever, sales soared past the billion-dollar mark. . ."

". . . Success in the marketplace made it possible for the Lottery to turn over $600 million to help fund the State's share of aid to the more than 700 local school districts—$1.54 for every $1 raised the year before and $6.58 for every $1 raised in Fiscal 1977-78, the first full year of the reorganized Lottery's efforts on behalf of education. . ."

". . . Thousands of small New York State businessmen, many of them neighborhood 'mom and pop' stores, earned more than $76 million in 1984-85 . . ."

John D. Quinn
Director

Ohio

"The Ohio Lottery is its employees in partnership with its sales agents; working together to help fund education in Ohio by providing legitimate, wagering entertainment for its players. . ."

". . . Sales recorded during Fiscal Year 1985 represented an increase of 40 percent over the record-setting year of 1984 and projections indicate that Fiscal Year 1986 will be even more successful. . ."

". . . The principal benefactors of all this success . . . are primary and secondary schools . . ."

". . . Several significant advancements likely to have an impact on the Ohio Lottery for many years to come have been initiated or implemented during Fiscal Year 1985."

"The most important innovation is a . . . contract . . . to install and manage a streamlined computer system scheduled to begin dispensing on-line game tickets in Fiscal Year 1986. This expanded system will offer the Lottery a "state-of-the-art" technology to operate its current on-line games during peak playing periods with the capability to add new games. . ."

". . . Further progress in technology enhancing Lottery operations occurred when the final phase of an Electronic Fund Transfer System (EFT) was completed in September of 1984. This paperless . . . system electronically records all sales and transfers money from Sales Partners' banks to the Ohio Treasury . . . 11 days faster than with conventional methods . . . [reducing] the amount of bad debt and agent defaults. . ."

Ronald Nabakowski
Executive Director

Oregon

". . . We have titled [this first annual report] 'The Oregon Lottery—a Winning Combination' because of the Lottery's many successes, not the least of which was its model start-up. Among the successes were establishing a dynamic retailer and ticket distribution network, and developing a highly sophisticated computerized system for constant accountability of tickets and financial transactions. . ."

Robert W. Smith
Director

Pennsylvania

". . . Pennsylvanians can be extremely proud of their Lottery, a highly successful business enterprise."

"For the past three fiscal years, the Pennsylvania Lottery has led the industry in sales. Just as important, it again achieved outstanding levels of business efficiency—last year holding its operating costs to just 2.4 cents per dollar of sales. . ."

". . . Along with these proven business standards, the Lottery employs the drive and enthusiasm of 8,100 private-enterprise retailers as its springboard to success. . . ."

Dick Thornburgh
Governor

James I. Scheiner
Secretary of Revenue

Bernard Edwards
Acting Executive Director

Rhode Island

"As we enter our second decade of service to the State of Rhode Island, it may be an appropriate time to examine the direction the Lottery has taken since it was started eleven years ago."

". . . We have established a record for fiscal honesty and integrity that is above reproach. . . We have been able to raise over $132,598,181 for the State's General Fund. . ."

". . . In order to continue providing these funds, we have created a mix of games and prize structures that are designed to generate excitement, interest and enthusiasm as well as income. . ."

". . . In addition to innovative games and promotional ideas, the Lottery has always prided itself on its innovative facilities. . . ."

". . . Currently, we are testing a new type of communications technology that uses radio frequencies instead of telephone lines to connect our terminals and central system. The initial results have been very positive. If the new system continues to perform as expected, it could be incorpo-

rated into our computer network . . . thereby saving the Rhode Island Lottery thousands of dollars every year in telecommunications costs. We are also experimenting with player-activated lottery terminals."

"Finally, we are continuing to approach other New England State Agencies regarding a regional-type lottery. It would provide some of the largest jackpots to be found anywhere, and benefit all the member-states. . ."

Peter J. O'Connell
Executive Director

Vermont

"This has been a difficult year for the Vermont Lottery Commission. Although sales levels were at an all time high, they fell considerably short of what had been projected. This was largely due to the insurgence of illegal break-open tickets and out-of-state purchases of Massachusetts Megabucks and New York Lotto tickets."

"If any business is to prosper, it must listen to its customers and design products they want to buy. The institution of a Tri-State Megabucks game is a response to our customers' wants. Our goal is to keep as much lottery money in Vermont as we possibly can. . ."

". . . We are now looking forward to the beginning of the new 'Tri-State Megabucks' and 'Pick 4' games. . ."

George A. Dacey
Director

Washington

"By any objective measure . . . the 1985 Fiscal Year was a success for the Washington State Lottery. It was also a year of transition, with a new Director and a new Lottery Commission appointed by Governor Booth Gardner."

"The Lottery Commission's role is to promulgate rules to carry out the Lottery's mandate to 'produce the maximum amount of net revenues for the state consonant with the dignity of the state.' . . ."

". . . Our new theme, 'In Washington, Everyone Wins' is our way of emphasizing the positive impact the Lottery has for every citizen . . ."

". . . Modern lotteries survive and prosper because they practice the same business techniques of the private sector. It is essential for us to remain constantly sensitive to the desires of our players. Additionally, we must recognize and utilize all the marketing techniques and technological expertise in the market-place. . ."

Andy Reynolds
Chair

Mary B. Faulk
Director

Washington, D.C.

"In fiscal year 1986, the D.C. Lottery will have numerous new challenges to face in its everchanging and increasingly complex environment. New games, more sophisticated management approaches, policy initiatives and new directions are planned . . ."

". . . With the results of an extensive Lottery-funded research project in hand, the Board determined that the Washington, D.C. market wanted a new and different type of lotto game. A new lotto game . . . is scheduled for introduction . . . in . . . Fall, 1985 . . ."

". . . A major initiative scheduled for implementation is an aggressive recruitment program . . ."

"Several previously untapped yet potentially lucrative markets are targeted for FY 1986. . . In addition, the Board will continue to study, test and determine the feasibility of selling lottery products through 'automatic player-operated' terminals at mobile sales units."

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Brant Coopersmith
Chairperson

Douglass W. Gordon
Executive Director

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